



Yearbook 2011

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Information to the Shareholders

Annual General Meeting

The AGM of shareholders of Harju Elekter will take place on May 3 2012, at 10 a.m. at the hall of the Keila Culture Centre, Keskväljak 12, Keila.

Dividends

The Management Board of Harju Elekter makes a proposal to pay a dividend of € 0,07 per share for the financial year 2011. The list of shareholders who are entitled to dividends will be closed on May 17, 2012 at 11.59 p.m. The dividends will be transferred to the bank accounts of shareholders on May 22, 2012.



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The Publication of Financial Reports in 2012

Harju Elekter informs you that in the year 2012, the consolidated financial results of AS Harju Elekter will be published as follows:

2012 1Q results week 18
2012 2Q results week 31
2012 3Q results week 44

After their release through the stock exchange information system all Harju Elekter's announcements are also available on company's internet homepage at <http://www.harjuelekter.ee>

The Group secured and reinforced its position in the markets

2011 was the first year that the Euro was current in Estonia and it was also the year when the Group reinforced its position in existing markets. All our subsidiaries and related companies were able to increase their net sales and operating profits when compared with the previous year. European and the world banking problems did not affect our company much as most of the trade carried out by the Group takes place within the euro zone. Simultaneously with the economic recovery and the increase in the amount of orders we abandoned our policy of shortened working hours and found extra resources to increase the salaries of our employees. It is encouraging to recognise that people who work for us appreciate the stability of the company and believe in its positive future perspective.

We have gradually started to value more and more the innovativeness and creativity of our employees and that has helped to make the whole company more innovative. There is no doubt that the innovation competition that the company initiated in 2011, and which will become an annual event from now on, has had a lot to do with these changes. The first conclusions have been made and the winners have received the recognition and rewards they deserve. All in all



„It is encouraging to recognise that people who work for us appreciate the stability of the company and believe in its positive future perspective.”

Endel Palla
Chairman of the Supervisory Board

Address by the Chairman of the Supervisory Board

by addressing the subject of innovation we have ensured a higher technical level of the company's own products, increased productivity and allowed us to expand the range of products.

For years, the Group has been successful in developing production real estate. Competent action has allowed us, during recent years, to expand the production premises of almost all the companies in the Group and make investments into the relevant technologies that have led to the rapid increase in net sales. In 2011, a new modern production building of the Group opened in the Keila Industrial Village.

The year 2011 was somewhat modest for investors in the NASDAQ OMX Tallinn Stock Exchange both in terms of the turnover of dealing in shares, as well as in price variation. This was also the case for AS Harju Elekter who, despite good economic results and contrary to the swinging increase in the price of shares in the two previous years, witnessed a decrease in the value of its shares. However, it is worth mentioning that during this whole period AS Harju Elekter has been a publicly traded company, it has been one of the few which has always been profitable and which every year has paid a dividend to its shareholders. We also promise to continue to carry out a reliable and stable dividend policy, as well as option programmes for key personnel of the company in the future.

The successful business management of AS Harju Elekter has also attracted attention also outside of its home markets as CE Asset Management, in co-operation with its Baltic partners, declared it to be the best in Estonia and honoured it with the Corporate Excellence Award. The company earned this acknowledgement thanks to its market position, stable customer base, good economic results and the general management of the company.

I believe that the future development of the Group is continually in the increase of sales outside of Estonia, mainly in neighbouring countries, but also in other European Union countries and in the world generally. However, the importance of the home markets should not be underestimated.

On behalf of the Supervisory Board I would like to thank our customers, partners, shareholders and employees. These are the people who have contributed a lot towards the prosperity of our business.



Endel Palla

Chairman of the Supervisory Board

Today's actions lay the foundation for success in the future

The financial results of AS Harju Elekter in 2011 were as good as expected. After complex but educative years the amount of orders and sales that started to increase quarter by quarter gave us new hope for better years to come. It was the first year that Estonia was integrated into the common European currency. Although it created some uncertainty in the Estonian economy it excluded any currency speculation. The strict budgetary policy and the control over expenditure made it possible to retain stability and even achieve some growth.

Thanks to effective marketing net sales increased in most segments of our activities. The consolidated net sales amounted to 46.7 million euros which is 14.2% more than the year before. The share of those products and services with a higher added value in the product portfolio increased and resulted in an increase in the operating profit of the Group by 33.3%. An increase in the net profit of 28% was achieved without gearing the sales of financial assets. The growth of profitability was ensured by reasonable management, rational control over costs, the increase in the share of products and services with a higher added value but also by a stable income from the rent of industrial real estate. As a whole it is reassuring to recognise that the increase in the operating costs was smaller than the increase in net sales.



„The main keywords in our actions today are innovativeness, renewable energy solutions and the wider use of green energy.”

Andres Allikmäe
Managing Director/CEO

Address by the managing director/CEO

Due to the specific qualities of our products we value highly our home markets, as well as any market around the Baltic Sea. However, we have expanded our territory of our operations by delivering our products and solutions also to Australia, Portugal, Abu Dhabi, Norway, Malaysia, Russia, Germany and other places in the world.

Well focused marketing and engineering and mutually profitable co-operation with our partners has allowed us to reinforce the position of the companies belonging to our Group within the business processes of our customers. For years, we have considered that it is important to offer our customers sustainable solutions and earn their trust by it. Today's success adds to the belief that we are on the right track to establishing a strong basis for good co-operation in the future.

Today we focus mainly on the most important areas of the electrical engineering market. The main keywords in our actions today are innovativeness, renewable energy solutions and the wider use of green energy. The solar energy plant that generates a considerable amount of the annual electric power supports the energy balance of our Finnish subsidiary by 30 kW and our Lithuanian subsidiary by 50 kW. Among other clean solutions that save energy we also offer pre-heating panels for cars and loading points for electric cars, as well as systematic management solutions. The sea and weather proof solutions for wind farms that will be delivered to one of the wind energy networks in Norway in 2012 was declared the winner of the intra-Group innovation competition. It is important that the mental input of our development engineers supports the solutions we are going to offer in the future and meet the expectations of our customers.

In order to make the image of the Group clearer and stronger we aggregated all the Estonian companies belonging to the Group under the one trade mark of Harju Elekter and mapped the values of the Group in 2011. We consider it very important that notions such as co-operation, reliability and development are identified with us.

Our goal as a Group is to develop as a leading producer of electrical installations and materials in the Baltic Sea area. This is possible with close co-operation in which everybody is a winner, including our customers, partners and employees. I would like to express my gratitude to the whole team of AS Harju Elekter for their commitment and active approach to the development of the Group. We have been able to offer our employees stability and security during these complex times and we value highly their readiness to face the future challenges. We are doing only as well as our customers are doing. I would like to thank all our customers for their trust!

I am also glad to confirm to our shareholders that, as the only technology company listed on the Tallinn Stock Exchange, we have been careful with your investment and grateful for your contribution to the development of the company.



Andres Allikmäe
Managing Director/CEO

Organisation

Harju Elekter has been manufacturing electrical equipment since 1968. The group's main income comes from energy distribution equipment (substations, cable distribution and fuse boxes) and automatic control boards for the energy sector, industry and infrastructure. 61.4% of the products are marketed outside Estonia.

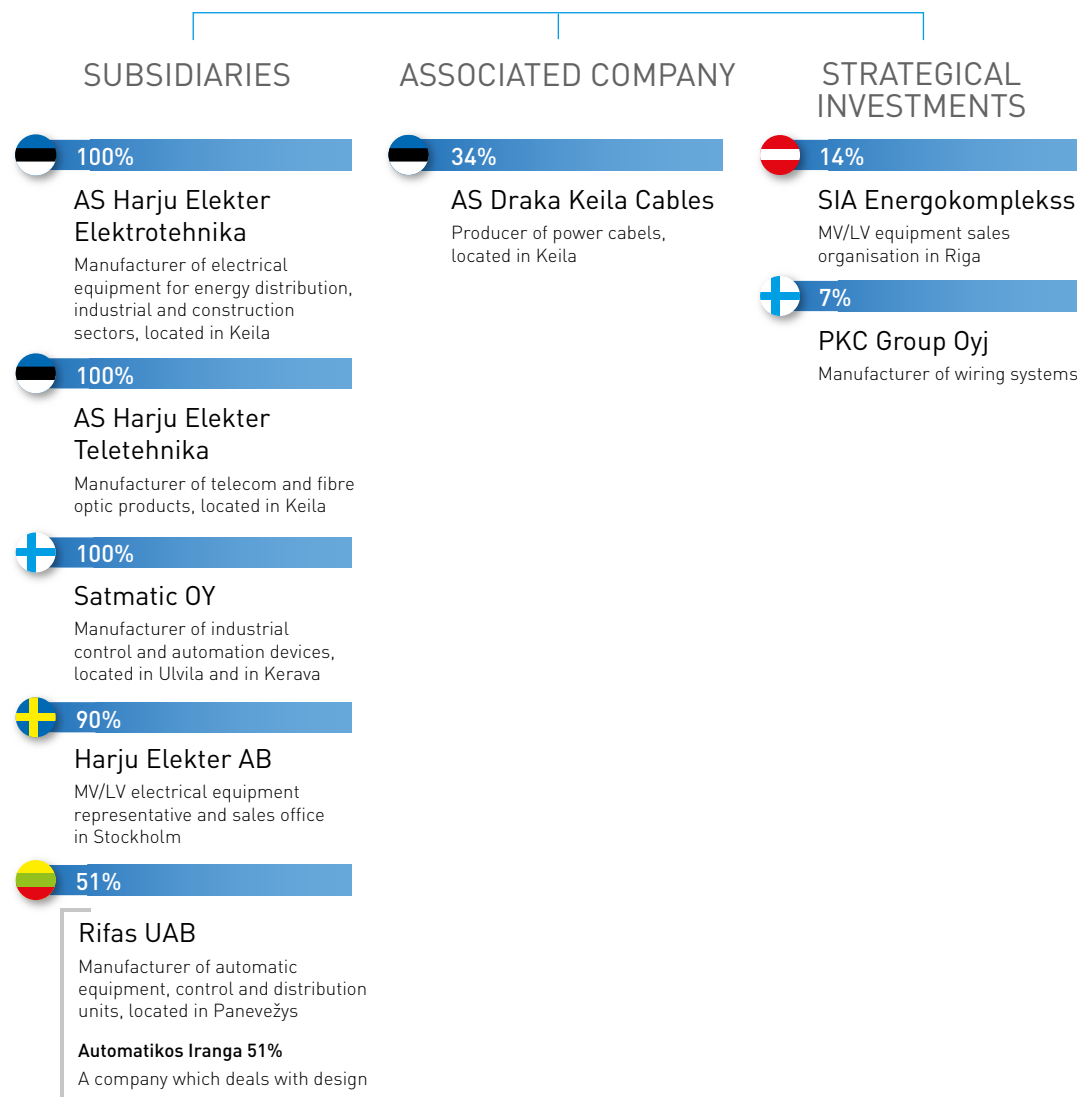
Mission

To be one of the leading manufacturers of electrical equipment and materials in the Baltic Sea region by responding to the clients' needs without delay with competence and quality and by offering added value and reliability to partners in co-operation projects.

Goal

To be successful over a long period of time, to increase the company's capital and generate revenue for the owners, as well as the partners, and to provide motivating work, income and development opportunities for the employees.

AS HARJU ELEKTER



Overview of the Economic Environment

Global economy

The world's economy increased relatively quickly during the first half of 2011. This was supported by a revival in the international trade as well as by the growth of export income and growing internal demand of the developing economies. This rapid growth raised the prices of raw materials and energy, and increased the global pressure on inflation. The summer brought along the aggravation of the international debt crises. For the first time in its history the United States faced the threat of its credit rating being lowered and the markets contested the sustainability of the finance of several countries in the euro zone. Equity markets lost quickly all gains recorded during the first half of the year. The autumn brought along harder financial conditions for banks. The risks related with economic perspectives had substantially increased by the end of the year.

Euro-area

The economic growth in the euro zone retreated after the second quarter of 2011. The economic growth had been supported greatly by Germany and France, while the growth in countries with budgetary problems was slower than average. The expansion of the debt crises and the growing threat of being affected by it reduced the economic certainty in Europe as well as everywhere else in the world. The uncertainty was even intensified by political tensions in several

euro zone countries which increase the disbelief in markets in the proposed economic and political solutions. Due to the decrease in consumption and investment resulting from the global uncertainty the main trading partners of Estonia, Sweden and Finland, have also reduced their growth estimation related to export demand and private consumption. According to the preliminary data of the European Central Bank inflation in the euro zone in 2011 was around 2.6-2.8%, while the economic growth was between 1.5 and 1.7%.

Latvia, Lithuania, Russia

The economic growth in Latvia and Lithuania in 2011 was mainly supported by export demand, but internal demand also increased gradually. However, the economies of these countries depended greatly on exports and their economic growth on the behaviour of foreign markets. Despite the unimpressive economic results of the first half of the year the Russian economy started to recover – thriving thanks to the exports of raw materials. The pressure on inflation that has inhibited economic growth in Russia during the last years is also showing signs of alleviation.

Estonia

The Estonian economy has increased well since the autumn of 2011. Its growth was retained by the use of the favourable market situation,

as well as the recuperation of the internal demand. The export volume of Estonia showed an impressive increase. Estonian households, as well as companies, bought more durable goods, investment activities recovered and loans were given more willingly. The forceful economic growth was accompanied by an inflation rate that was faster than estimated. This was mainly due to the increase in prices of energy and raw material for food on the world market.

The resistance of the Estonian economy to the deterioration of the external environment has increased thanks to the lessening of the

internal imbalance. Due to the fact that the expectations of the Estonian market players are more modest and the debt load of the private sector has decreased, Estonia is less sensitive to stricter financial conditions and change of perspectives. The vulnerability has been reduced also by recovered profitability in companies and that has increased their financial buffer. Better coordination of salaries with productivity has also had a positive effect on the competitiveness of the Estonian economy. Although the high unemployment rate is still an additional burden for the Estonian economy the ongoing creation of jobs will lower these figures quickly.

Year 2011

In 2011, there was an innovation competition in the Group, to acknowledge engineers and technicians working on product development and innovation. 9 works were presented to the competition by 18 authors. The jury found unanimously that the best work was the wind farm energy gathering system – Lista Wind Farm – prepared by the engineers of AS Harju Elekter Elektrotehnika. A contract has already been entered into to put it into practice in 2012, in Norway, in the amount of 600,000 euros.

Swiss CE Asset Management, along with its Baltic partners, announced the next nominees for the Corporate Excellence Award in October. AS Harju Elekter was recognised as the best in Estonia and fourth among the Baltic States. It was recognised thanks to its market position, stable customer base, good historic economic results and promotion of the general management of the company.

In October, AS Harju Elekter participated in the investment fair Rahakompass 2011, the recurrent topic of which was responsible conduct in saving, investment and company management. The business was represented with an advertising display and introduced itself in the panel of short presentations.

In 2011, Krediidiinfo AS awarded to AS Harju Elekter the credit rating AA (very good). The rating of Krediidiinfo AS assesses the activities of the company as a whole and represents an aggregate assessment of the company's economic and financial condition as well as the payment patterns. Only 7.6% of the Estonian companies have credit rating AA.

In autumn, subsidiary Rifas UAB launched the operation of a 50 kW solar power plant, which, due to the favourable repurchase price of

electricity, will to cover most of the expenditure incurred to produce electricity at the Lithuanian subsidiary and will enable the testing of various solar energy solutions.



Finnish subsidiary was awarded the certificate "Suomen Vahvimmat 2007– 2011" by the client register of Suomen Asiakastiedon. The creditworthiness of the company is the main evaluation criterion. The title is awarded to a company that has met the highest requirements of Alfa rating for five consecutive years. The number of such companies makes up only 10% of all companies registered in Finland.



The production management of Satmatic Oy as well as Rifas UAB declared to be in conformity with the standards of the international environmental management system ISO 14001:2004. Activities of Rifas UAB also were recognized with the health and safety management system OHSAS 18001 standards.

The Group built a new 5000 sq.m production complex for AS Saajos, manufacturer of fire-proof safety doors. The construction completed in December 2011 and the premises have been given for a long-term lease to the company.

To expand its activities and increase its market share in Sweden, Harju Elekter AB, a subsidiary of AS Harju Elekter, acquired the assets of BGB Power Solutions AB in January. The total cost of the contract was SEK 500,000. On the basis of the contract, Harju Elekter AB acquired assets and a strategic partnership agreement with contractual prices, support services and selling. The deal will be financed from own funds over two years in accordance with the contract.

Subsidiaries AS Harju Elekter Elektrotehnika, Satmatic Oy and AS Harju Elekter Teletehnika participated in the energy fair Verkosto 2011, held in Finland in February. A stand presented to fair clients substations with a metal casing, which were complemented by construction materials from the other product families. In April, the AS Harju Elekter Trade Group presented the products, produced by Group's companies, the retail shops and their professional product selection and displayed the products of the companies, represented by the Group, in the international building fair Estbuild 2011. In October, subsidiary Rifas UAB presented its portfolio of products in Elmia Subcontractor Fair in Sweden.

The supervisory board and management board of AS Harju Elekter adopted a decision to consolidate all of the Group's Estonian companies under the trademark Harju Elekter. The use of a joint logo helps increase the competitiveness of the Group and creates additional benefits and possibilities in marketing activities. Based on this, the supervisory board of subsidiary AS Eltek approved AS Harju Elekter Teletehnika as the new name of the company.

Business Results

5 years statistical summary

Group	2011	2010	2009	2008	2007
Statement of comprehensive income (million EUR)					
Net sales	46.7	40.9	40.4	55.7	46.8
Operating profit	2.0	1.5	1.8	3.2	3.3
Net profit (owners of the parent company)	2.8	2.2	1.2	2.5	5.4
Statement of financial position at the end of the year (million EUR)					
Total current assets	15.4	14.4	12.0	15.9	15.4
Total fixed assets	37.5	40.7	27.5	22.5	30.6
Total assets	52.9	55.1	39.5	38.5	46.0
Owners' equity (owners of the parent company)	40.3	44.0	30.7	25.4	34.1
Equity ratio (%)	76.2	79.8	77.7	66.0	74.0
Rates of growth (%)					
Growth in net sales	14.2	1.1	-27.4	19.1	17.7
Operating profit growth	33.3	-16.1	-43.4	-2.8	14.0
Net profit growth (owners of the parent company)	27.6	76.9	-50.1	-54.3	78.6
Assets growth	-4.0	39.5	2.7	-16.4	-4.9
Owner's equity growth (owners of the parent company)	-8.3	43.1	21.0	-25.5	-12.0

	2011	2010	2009	2008	2007
Performance indicators (%)					
Return of sales	4.3	3.7	4.5	5.7	7.0
Net profit margin	6.3	5.6	3.4	4.4	11.5
Return of assets (ROA)	5.1	3.2	3.2	5.8	11.4
Return of equity (ROE)	6.6	4.4	4.4	8.3	14.8
Shares (EUR)					
Average number of shares (1000 pc)	16,800	16,800	16,800	16,800	16,800
Shareholder's equity per share	2.51	2.22	1.67	1.51	2.17
The closing price	2.28	3.02	2.07	0.99	3.01
EPS	0.17	0.13	0.07	0.15	0.32
P/E	13.41	23.39	28.14	6.76	10.58
Dividend per share	⁽¹⁾ 0.07	0.06	0.05	0.06	0.13
Liquidity ratio					
Current ratio	1.8	1.8	1.6	1.6	1.6
Quick ratio	1.0	1.1	0.9	0.8	0.8
Personnel and remuneration					
Number of employees at the end of the period	427	424	452	501	442
Average number of employees	457	440	464	515	486
Wages and salaries (million euros)	7.7	7.0	7.3	8.5	7.4

Return of sales = Operating profit/Net sales *100
 Net profit margin = Net profit/Net sales *100
 Shareholder's equity per share = Average owner's equity/Average number of shares
 Return of assets (ROA) = Net profit/Average total assets *100
 Return of equity (ROE) = Net profit/Average owner's equity *100

EPS = Net profit/ Average number of shares
 P/E = Share price/EPS
 Equity ratio = Owner's equity (belonging to the owners of the parent company)/Assets*100
 Current ratio = Average current assets/ Average current liabilities
 Quick ratio = Average liquid assets (current assets - inventories)/ Average current liabilities

⁽¹⁾ Proposal of the Management Board

In the 2011 annual report the financial indicators of AS Harju Elekter (consolidating entity) and its subsidiaries, AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika, Satmatic Oy, Harju Elekter AB and Rifas UAB with its subsidiary Automatikos Iranga UAB (altogether referred to as the Group) have been consolidated line by line and the results of the related company, AS Draka Keila Cables, have been consolidated using the extended equity method.

AS Harju Elekter holds 6.6% of the Finnish company PKC Group Oyj. The shares of the company are listed on the Helsinki Stock Exchange and are presented in the statement of financial position at their market price. The changes in the market price of the shares can have a substantial effect on the value of the assets and the owners' equity in the Group.

Earnings and margins

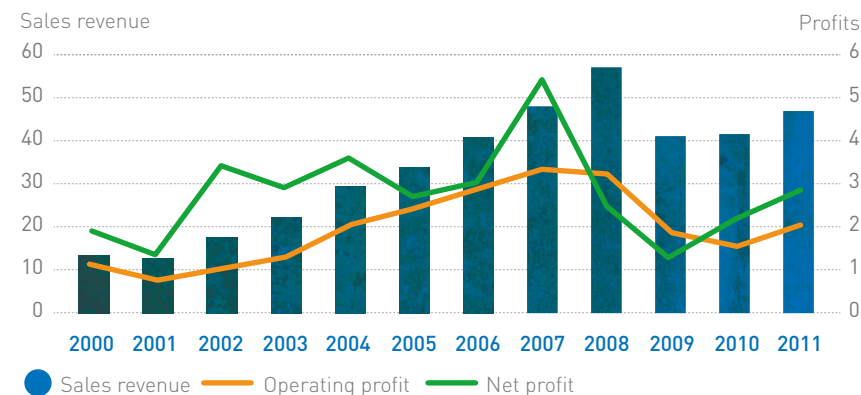
The financial indicators of the Group in the accounting year demonstrated improvement trends.

In 2011 the consolidated sales revenue of the Group increased by 14.2% compared with the previous year amounting to 46.7 million euros. The share of Estonian companies in the total consolidated sales revenues was 47% (2010: 45%), Finnish companies contributed 40% (2010: 41%) and Lithuanian companies 13% (2010: 14%).

The main area of activities of the Group is the production and marketing of electric power distribution and transfer equipment and activities related to them and these activities contributed, as usual, the largest part of sales revenues i.e. 90% (2010: 89%). The real

Sales revenue, net and operating profits

million euros



estate segment (2010: 6%) and other non-segmented activities (2010: 5%) gave equally 5% of the sales volume of the Group.

As for the markets, once again the Group's home markets (Estonia, Lithuania and Finland) were dominant in 2011 and 93.5% (2010: 85%) of the goods and services were sold there. Sales volumes grew most of all in the Finnish and Estonian markets with the sales of the Estonian and Lithuanian companies of the Group in the Finnish market increasing by 30% amounting to 6.9 million euros. The sales in the Lithuanian market remained at the level of 2010. However, the sales revenues of the Lithuanian segment have increased during the financial year by 3.6% amounting to 6 million euros out of which the sales in the home market amounted to 67% (2010: 72%). The Lithuanian

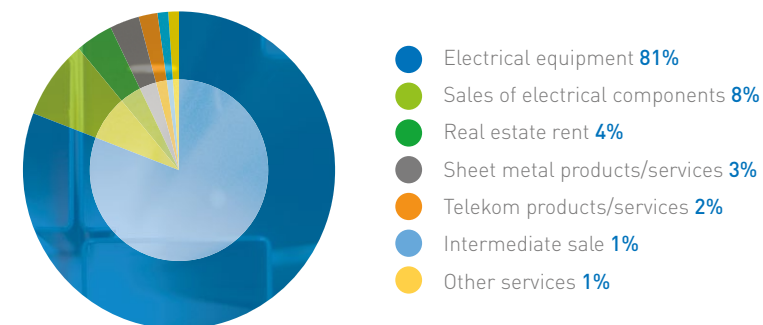
company substantially increased its sales volumes on the Latvian, Danish, Polish and Norwegian markets. The company also entered for the first time the United States and Brazilian markets.

The recovery of the economy has been accompanied by some increase in the demand in the main target markets of the Group. At the same time the competition became tougher in these markets. This, on the other hand, increased the pressure on prices and delivery dates.

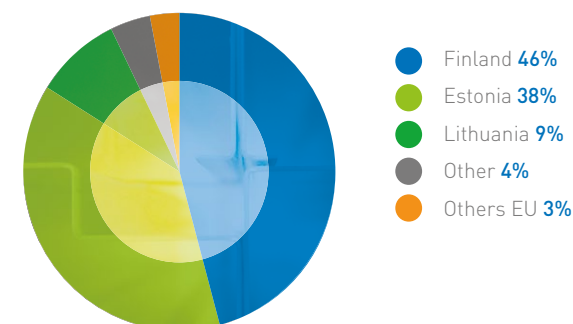
The relatively rapid growth of the world economy in the first half of 2011 increased the price of raw materials and energy and that raised the prices of the purchased services. The operating costs of the Group increased during the year by a total of 13.3% amounting to 44.6 million euros, including the 12.0% increase in the costs related to the products and services sold and more than 20% increase in the marketing and general management costs. All in all the rate of growth of operating costs was 0.9 percentage points lower than the increase in consolidated sales revenues.

During the year the labour costs increased by 19.6% amounting to 10.9 million euros. In 2010, a costs savings regime was implemented at the Group, wages were frozen and employees worked temporarily on a part-time basis. Due to the increase in the volume of orders this year the staff turn back to full-time basis as well as new employees has been hired at Group companies and temporary employees were used in the third quarter. The Group has stock-based compensation plans which may be settled by way of our own equity instruments upon recognition of which, in consolidated financial reports, IFRS 2 principles have been applied. The value of services (labour input) to an amount of 106 thousand euros received for

Revenue by business area



Revenue by market



stock is recognised as the period's labour costs (2010: 106 thousand euros).

During the year the amount of 2 (2010: 19) thousand euros of receivables was written down and charged off. The cost of the markdown of reserves was 30 (2010: 24) thousand euros. Depreciation and amortisation during the period amounted to 1.35 (2010: 1.38) million euros.

In 2011 the operating profit before depreciation was 3.38 million euros, increasing by 16.5% compared with the previous financial year and the operating profit was 2.03 million euros which was 0.51 million euros more than in the previous year. The return on sales before depreciation was 7.2% (2010: 7.1%) and the net return on sales was 4.3% which is 0.6 percentage points better than the year before.

In 2011 the Group made 0.24 million euros more dividend profit than a year before. All in all the net financial profit for 2011 amounted to 0.8 million euros. The year before this figure amounted to 1.1 million euros as in 2010 another 80 thousand PKC Group Oyj shares were sold and the financial income from the sales of shares amounted to 0.52 million euros. Financial expenses for the reporting period amounted to 62 (2010: 67) thousand euros.

The Group consolidated 497 (2010: 61) thousand euros of profit from its affiliated company.

In 2011 the income tax costs amounted to 353 (2010: 327) thousand euros. The income tax costs decreased in 2011 by the deferred income tax of 35 thousand euros shown in the consolidated statement.

3 thousand euros of it were due to the temporary differences in the accounting of basic assets and 32 thousand euros tax loss to be carried forward.

The consolidated net profit for 2011 was 2.9 million euros which was 28.5% more than in 2010. The share of the owners of the parent company of the period's net profit accounted for 2.8 million euros, increasing by 27.6% compared to 2010. The net profit per share was 0.17 (2010: 0.13) euros.

Other comprehensive income

The market price of a share of PKC Group Oyj at the Helsinki Stock Exchange decreased during the period of 12 months by 3.94 euros and closed at 11.43 euros. During the reporting period the unrealised losses emerging from the recalculation of marketable financial assets into their fair value amounted to 5.5 million euros. In 2010 other comprehensive income from financial assets amounted to a total of 11.8 million euros. Differences in the exchange rate emerging in recalculation of figures of a foreign company (Swedish subsidiary Harju Elekter AB) formed an insignificant part of other comprehensive income. All in all the consolidated comprehensive loss of the reporting year was 2.6 million euros, while in 2010 the comprehensive income was 14.1 million euros.

Financial position

The amount of the consolidated balance sheet as of 31 December 2011 was 52.9 million euros, decreasing by 2.2 million euros during the year.

By the end of the year business claims and prepayments amounted to 7.9 million euros, increasing by 1.3 million euros during the year and inventory amounted to 6.7 million euros, increasing by 1.2 million euros a year. At the same time the Group's debts to suppliers and other debts and payables increased by 1.1 million euros and amounted to 6.3 million euros. Such increase was mainly because of recovery in the economy and the growth in sales of the Group.

In 2011 the quick ratio decreased by 0.1 points down to the level of 1.0, while the current ratio (1,8) remained at the level of the previous year.

During the year the market price of the PKC Group Oyj shares in the Helsinki Stock Exchange decreased by 3.94 euros. The cost of investment in assets and reserves in equity capital decreased by 5.5 million euros after the stock was revaluated at its fair value. During the accounting year the Group invested 2.5 million euros in real estate, 0.5 million euros in tangible fixed assets and 0.1 million euros in intangible fixed assets, totally 3.1 million euros. All in all, the book value of financial assets decreased by 3.2 million euros dropping to 37.5 million euros during the period of 12 months and this was mainly because of the changes in the market price of financial assets.

By the end of the year interest-bearing debt obligations amounted to 3.8 million euros, increasing by 447,000 euros during the period of 12 months. Short-term liabilities increased by 771 (2010: 377) thousand euros; 65 (2010: 235) thousand euros of a long-term loan was repaid during the reporting period. During the 12 month period the total amount of capital rent payments made by the Group amounted to 272 (2010: 289) thousand euros.

The net debt (Interest-bearing debt obligations – Cash and bank accounts) of the Group has increased by 2.0 million euros amounting by the end of year to 3.0 million euros. The ratio of net debt to owners' equity was 7.1% (2010: 2.1%).

During the period of one year the owner's equity of the Group decreased by 3.5 million euros, amounting to 42.0 million euros by the end of the year.

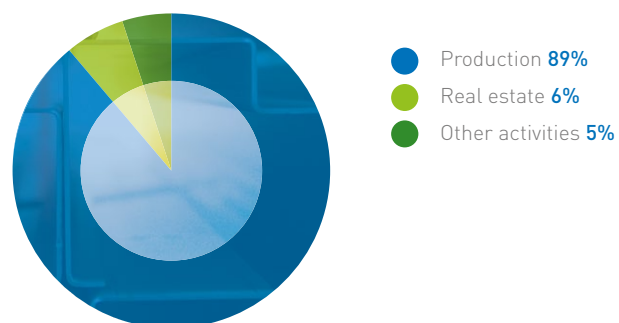
By the end of the reporting period current assets amounted to 29% (2010: 26%) and non-current assets to 71% (2010: 74%), on the other hand, foreign capital accounting for 21% (2010: 17%) and owner's equity 79% (2010: 83%) of total assets.

Business Segments

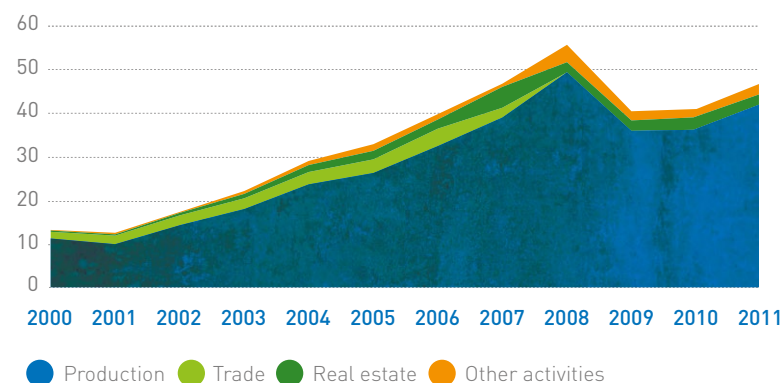
As of 31 December 2011 the Group was active in two fields – production and real estate – where the accompanying risks and rewards were very different and both fields of activity had enough weight to form a separate segment. The share of the trading group operating

within the parent company and, of Harju Elekter AB, has during the last four years (including 2011) remained below the essential 10% and, therefore, it was recognised as within the composition of other fields of activities.

Revenue by business segment



Revenue of business segments million euros



Production

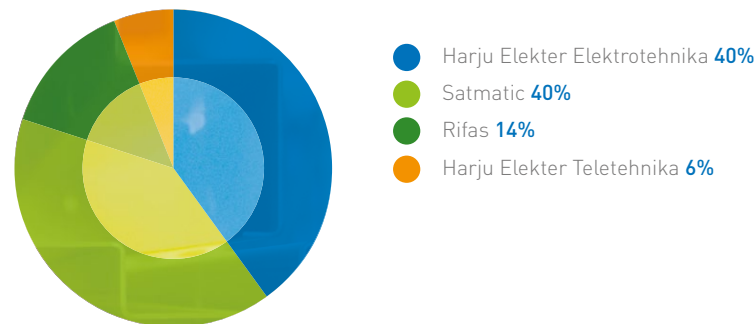
The production segment includes electrical equipment factories in Estonia (AS Harju Elekter Elektrotehnika), Finland (Satmatic Oy) and Lithuania (Rifas UAB) which produce mainly electric power distribution equipment (substations, cable distribution and fuse boxes) and automatic and control boards for the energy sector, industry and infrastructure. AS Harju Elekter Teletehnika in Estonia which manufactures products for the data and telecommunication sector as well as electro-technical sector, also belongs in this segment.

In 2011 production gave 89.6% (2010: 88.8%) of the consolidated sales revenue. The segment's volume of sales increased within a year by 15.3% amounting to 41.8 million euros.

AS Harju Elekter Elektrotehnika

AS Harju Elekter Elektrotehnika, which is fully owned by the Group, is a leading manufacturer and distributor of MV/LV distribution units in Baltic countries. The headquarters and plant of Harju Elekter Elektrotehnika are located in Keila comprising 10,100 m² of production, warehouse and office premises. The average number of employees is 187, incl.33 of them working in sales and production development.

Revenue by company



THE SALES REVENUE OF **AS HARJU ELEKTER ELEKTROTEHNIKA** INCREASED WITHIN THE YEAR BY **34%** AMOUNTING TO **18.5** MILLION EUROS OF WHICH **34%** WAS FROM SALES OUTSIDE ESTONIA.

Thanks to the recovery in economic growth in Estonia as well as in the countries of location of its main foreign trade partners the sales revenue of AS Harju Elekter Elektrotehnika increased within the year by 34% amounting to 18.5 million euros of which 34% was from sales outside Estonia. The company sold its products in Finland, Germany, Russia, Sweden, and Belorussia as well as to the United Arab Emirates (Abu Dhabi) and Spain.

„Parallel to the economic recovery the company was able to increase the share of products with a higher added value in its product portfolio.”

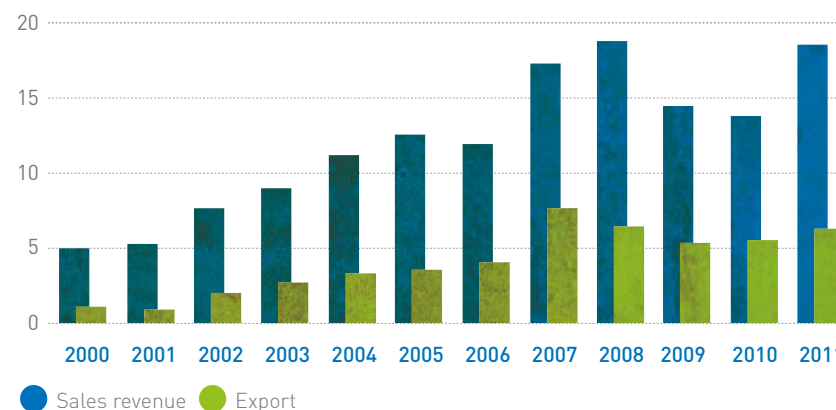
Ülo Merisalu
Harju Elekter Elektrotehnika, Manager



The majority (92.5%) of sale revenues was earned by the sales of various MV/LV distribution units. Parallel to the economic recovery the company was able to increase the share of products with a higher added value in its product portfolio. Prefabricated and distribution substations for the energy sector formed the largest product group of the company. A substantial part of sales revenues was given by the delivery of MV equipment and high capacity 8PT and 8HSO type LV distribution centres for the industrial sector and the sale of up to 63A LV distribution centres to the construction and infrastructure sector.

The year 2011 offered complex challenges to the company's product development and mechanics engineers. Due to the market demand the designing capacity for medium voltage equipment and distribution stations was increased. New substation solutions for wind farms were developed. The introduction of a new low voltage distribution unit (Sivacon S8 system) which is produced on the basis of the licence issued by Siemens was started. This resulted with a successful presentation of the relevant S8 type distribution and control panel at the electrical engineering fair held in Finland. Medium voltage primary distribution units were improved, including the development of feeders with the rated current of 2500A. Due to the increase in the production output the capacity of the plant

AS Harju Elekter Elektrotehnika sales revenue
million euros



making current rails for distribution units had to be increased and a working station for three dimensional designs had to be added to the design centre. The production of a junction box with a rated current of up to 250A including a failure transmission (telemetry) device was also introduced. Another important product developed



HEKA prefabricated substations. In 2011 more than 700 prefabricated substations were manufactured. Over 100 of them were made for Scandinavian power networks.



Talvivaara nickel-mine in Finland. Long-term co-operation resulted in the production of 8 customer-tailored distribution substations.

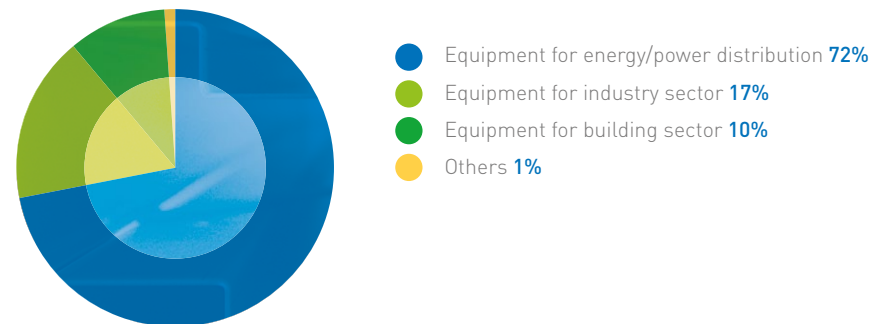
and introduced by the engineers of the company was the solution for a substation that can be lifted by transformer. Several new models were added to 63A distribution units manufactured in series for existing and new customers. More good news is that in 2011 the low voltage distribution system (the 8PT series) and its production were recognized as compatible with the Russian GOST. In order to introduce internationally the name of AS Harju Elekter as the provider of renewable energy solutions two portable fuel systems were produced for the Tallinn-Monaco electric cars rally.

Following the principles of quality management and environmental policy AS Harju Elekter Elektrotehnika continually focused on the efficient use of essential materials in order to reduce the resultant waste to a minimum. Fire safety training was organised for workers which consisted of a theoretical part as well as a field exercise. The personnel has also passed the 5S training and started with the introduction of the system. According to the requirements of quality standards ISO 9001 and ISO 14001 internal and external audits are carried out at least once a year and every three years a recertification takes place. The next recertification is scheduled to take place in 2013. During the year the introduction of additional options of the newly launched MS Dynamics AX software continued.

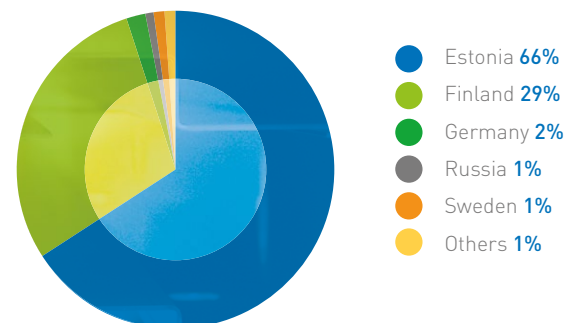
Within the framework of co-operation in engineering studies and research AS Harju Elekter Elektro-tehnika and Tallinn University of Technology concluded an agreement on common intentions to start cooperation within the doctoral studies with the aim to develop solutions suitable for a "smart network", including optimising the functioning of an energy system in order to balance a variable workload.

The economic development of recent years and the introduction of new economic software have required us to specify everyone's

Revenue by product group



Revenue by market



tasks, review the organisation and optimise production processes. Consistent efforts to update and expand the product portfolio have resulted in increasing the possibilities of the company to win more sales orders. Considering the professional product portfolio, consistent investment in technology, the competence of the employees as well as the good reputation of the company and the trust of our customers it is safe to say that we can look hopefully into the future.

AS Harju Elekter Elektrotehnika



Power supply substations for Konecrane port cranes – a developing business relationship. In 2011 the company manufactured a total of 36 substations meeting special requirements for various ports: Khalifa in Abu Dhabi, Tercat in Spain, Brisbane in Australia and Rotterdam in the Netherlands.



An oil-shale plant of Eesti Energia located in Estonia and based on Enefit-280 technology which was supplied with 5 prefabricated substations and 4 medium voltage switchyards.

Metso paper plant in Bratsk, Russia.
Low voltage distribution panels 8PT Sivacon, 154 sections.

AS Harju Elekter Teletehnika

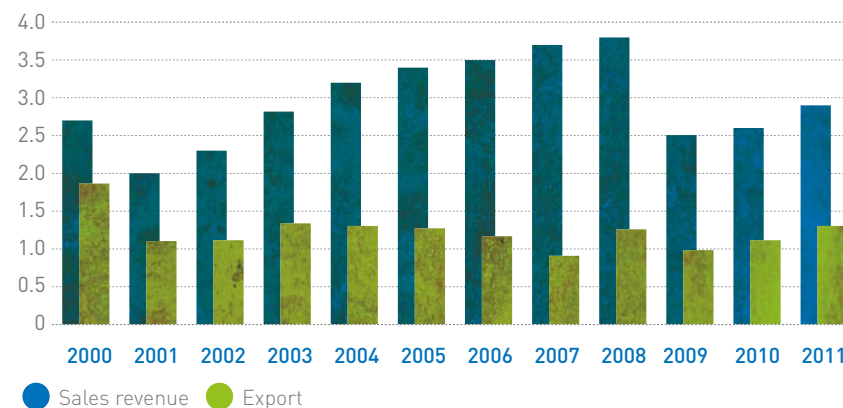
The main activities of AS Harju Elekter Teletehnika, which is fully owned by the Group, include the manufacture and marketing of data and telecommunication boxes and other equipment and accessories and fibre optical cables for the telecom sector. In addition, a range of customer-based sheet metal products and semi-manufactured articles are produced for the electrical engineering sector, subcontracting works are carried out and services rendered in the area of sheet metal processing and finishing. The company also comprises a mechanical division, which executes special orders for companies in Keila Industrial Park, and holds licences for designing, installing and maintaining fire and security systems. The factory is located in Keila and the company employs 63 people.

The year 2011 was a year of change for AS Harju Elekter Teletehnika. The changes involved the surrounding business environment as well as the operation of the company. The year started with the introduction of the euro which reinforced the trust of foreign partners in Estonian companies. Some increase in the demand at the main target markets was noticeable during the first half of the year. At the same time competition increased putting more pressure on prices and delivery dates. The increase in sales was mainly due to customers related to the telecommunication sector who, despite the unfavourable economic environment continued to make planned investments. However, many customers postponed all large-scale projects and/or confined themselves to essential investment.

Production planning was made more difficult by the relatively small value of an average order. The increase in prices of materials and raw materials that took place in the second half of the year had an effect on the profitability of the company. In 2011, sales revenues of

IN 2011, SALES REVENUES OF **AS HARJU ELEKTER TELETEHNIKA** AMOUNTED TO **2.87** MILLION EUROS, INCREASING BY **12.4%** COMPARED WITH THE PREVIOUS YEAR. DOMESTIC SALE INCREASED BY **9.0%** AND SALES OUTSIDE OF ESTONIA BY **17.1%**. SALES OUTSIDE OF ESTONIA ACCOUNTED FOR **44.5%** OF SALES REVENUES.

AS Harju Elekter Teletehnika sales revenue
million euros



AS Harju Elekter Teletehnika amounted to 2.87 million euros, increasing by 12.4% compared with the previous year. Domestic sale increased by 9.0 % and sales outside of Estonia by 17.1%. Sales outside of Estonia accounted for 44.5% (2010: 42.7%) of sales revenues.

During the year several changes in the customer structure took place. Due to the events in the business environment the share of several long-term key customers decreased. However, many new customers were found thanks to active work in marketing and sales. In spring the name of the company was changed in order to benefit from the common trade mark of the Group when entering into new markets. By the end of the year it was clear that the common brand had increased intra-group synergy and created an advantage in finding new customers. The share of exports in the overall sales turnover of the company increased substantially. Finland is still the main export market for the company and Germany has been added as a new target market. Active sales continued also in Sweden, Norway and France.

During the last months of the year the implementation of the well-known 5S principles was started in order to increase the productivity of the company. The advantages of the system include implicitly and little demand for resources. 5S is actually a tool for reducing the waste of resources. It is important to recognise the value of the product to customers. All the activities that do not add value have to be eliminated and produce is only according to the needs of a customer.

"Growth will be the key-word for AS Harju Elekter Teletehnika in the near future. The company aims to increase the sales turnover as well as the profit and do that mainly through effectiveness and improvement of the division of work."

*Urmas Paisnik
Harju Elekter Teletehnika, Manager*

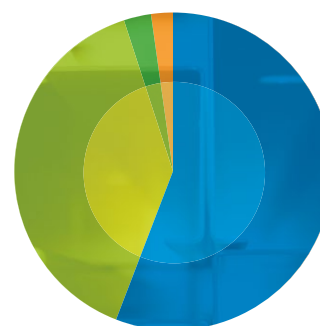
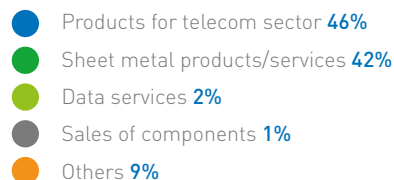


Since the beginning of the year the company has operated according to the new 5S standard. Production has become more flexible and has been exempted from excessive items and expenditure of time.

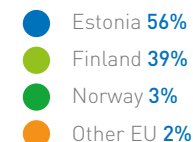
Growth will be the key-word for AS Harju Elekter Teletehnika in the near future. The company aims to increase the sales turnover as well as the profit. The general increase in effectiveness should come from more intense use of machinery and better use of working time. The company also aims to increase the share of products with a higher level of integration and added value and the reduction of simple products allowing one or two operations. The progression in the value chain presumes the improvement of the competence and skills of employees. The capability and success of the sales team is of crucial importance in finding new customers and orders.



Revenue by product group



Revenue by market



Satmatic OY

Satmatic Oy, a fully owned subsidiary of AS Harju Elekter, is a leading producer of automation equipment for the industrial sector and of electric power distribution and transfer equipment in Finland. The product range of the company covers the needs of customers from the development of products, programmes and projects to full maintenance service. Satmatic Oy is also an importer and retailer of the products of the companies belonging to the Group in Finland. The headquarters and the factory of the company are located in Ulvila near Pori. The company also has a sales representation in Kerava in order to better service businesses and other customers in Helsinki-area. The company hires 90 employees.

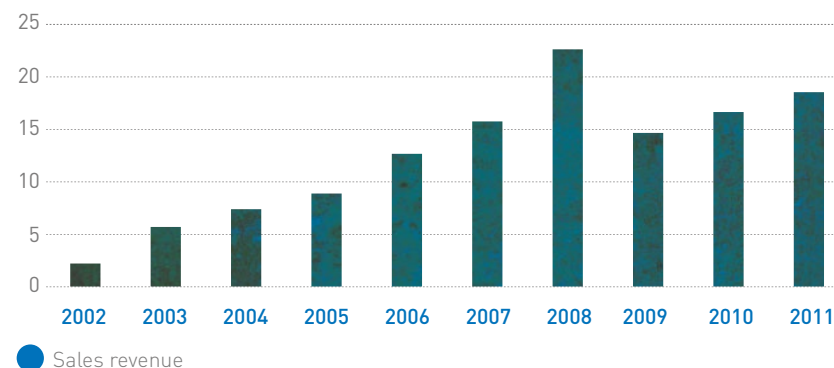
Despite the volatile economic environment in 2011 Satmatic Oy was able to increase its sales revenue by 11.4% i.e. up to 18.6 million euros. The sales outside Finland amounted to 66.5% of the total sales (incl. 62% through Finnish brokers).

The energy production and energy distribution sector which produces mainly for the home market but also for other countries, showed a remarkable increase. The results were also good in sales of heating and loading equipment of vehicles. New opportunities for selling products aimed at the renewable energy sector and nuclear power stations opened up. Project based orders, including solutions and products for renewable energy sector, where Satmatic Oy provided parts related to automatics and electrics, increased substantially during the year. These solutions were sold in Finland but also to China, USA and Malaysia. However, such orders from customer groups orientated to exports create uncertainly accompanied by risk that such orders may be easily moved from Finland to some other country where the (production) costs are substantially lower and/or the final customer is closer.

DESPITE THE VOLATILE ECONOMIC ENVIRONMENT IN 2011 **SATMATIC OY** WAS ABLE TO INCREASE ITS SALES REVENUE BY **11.4%** I.E. UP TO **18.6 MILLION EUROS**. THE SALES OUTSIDE FINLAND AMOUNTED TO **66.5% OF THE TOTAL SALES**.

Satmatic OY sales revenue

million euros



The activities of the company are based on long-term client relations where great attention is paid to developing first-rate and professional solutions as well as to mutually offered added value. In 2011 the company started to implement Sivacon S8 working principles in preparing its products and solutions. During the year a digital remote control device for controlling car heating and loading boards, a vehicle loading device to accelerate 32 A loading and WEB/GPRS based control system for street lighting were developed. In 2011

Satmatic OY



Gas and oil production plants of the fuel corporation Petronas in the Caspian Sea which were supplied with a control board, frequency transformer and logistics centre. Satmatic was responsible for the installation as well as for the introduction of the automatic equipment.



The paper plant in Russia which was supplied with 14 actuator control boards which were produced using Sivacon high technology equipment. A total of 160 units were delivered within the framework of the project.



Waste boiler plant in Norrköping, Sweden. Satmatic developed, programmed, manufactured and tested (FAT) its distribution boards and supervised the installation and utilization of the boards.



For years Satmatic has been in co-operation with Sermatech Oy and has systematically worked on the development and production of solar panels. Satmatic is responsible for the development of automatics solutions and the production, installation and utilization of control boards. The demand for such products increases yearly by approx. 50%.

a heating/loading system that can be controlled over the web or by mobile phone was introduced in Oulu Airport as a remarkable technological innovation.

The purposeful and consistent work of Satmatic Oy has drawn wider public attention. In spring 2011 Satmatic Oy was awarded the certificate of „Suomen Vahvimmat 2007-2011” (“Strongest in Finland”) by the Customer Registry of Suomen Asiakastiedo. The main evaluation criterion of the competition is the creditability of companies. The honourable title of Suomen Vahvimmat is given to those companies which for five consecutive years have met the highest Alfa-rating (AAA or AA+) requirements. Only about 10% of Finnish companies have fulfilled such requirements.

When organising work and production processes Satmatic Oy has always paid great attention to environmental sustainability. The personnel have been trained to follow the requirements for waste handling and package circulation and to reduce energy consumption. The organisation of the management and production of the company meets the requirements of the quality management system ISO

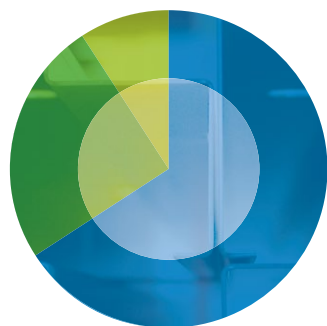
“The activities of the company are based on long-term client relations where great attention is paid to developing first-rate and professional solutions as well as to mutually offered added value.”

Simo Puustelli
Satmatic Oy, Manager



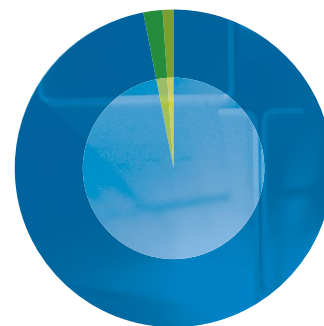
9001. In 2011 certification of the company’s business processes in line with international environmental management quality standards ISO 14001 took place, carried out by Bureau Veritas Certification. As a result of long-time efforts almost 100% of the companies purchasing and sales orders are processed electronically.

In 2012 Satmatic Oy will continue active sales and marketing. The key to the development of the company is in high productivity, involvement of new customers, as well as in increasing the sales of the Group’s products in Finland. Satmatic Oy, as one of the companies of Harju Elekter Group, will contribute to the improvement of co-operation between all its companies.



Revenue by product group

- Equipment for industry sector **66%**
- Equipment for energy/power distribution **25%**
- Equipment for building sector and infrastructure **9%**



Revenue by market

- Finland **97%**
- Malaysia **2%**
- Others **1%**

Rifas Group

Rifas UAB is a Lithuanian subsidiary of Harju Elekter located in Panevėžys. Harju Elekter owns 51% of its shares. The main area of activities of the company is the production and marketing of industrial automation equipment and electric power distribution and transfer equipment. The Rifas Group (hereinafter "Rifas") comprises the Lithuanian manufacturing enterprise, Rifas UAB, and its subsidiary, Automatikos Iranga UAB, which specialises in design.

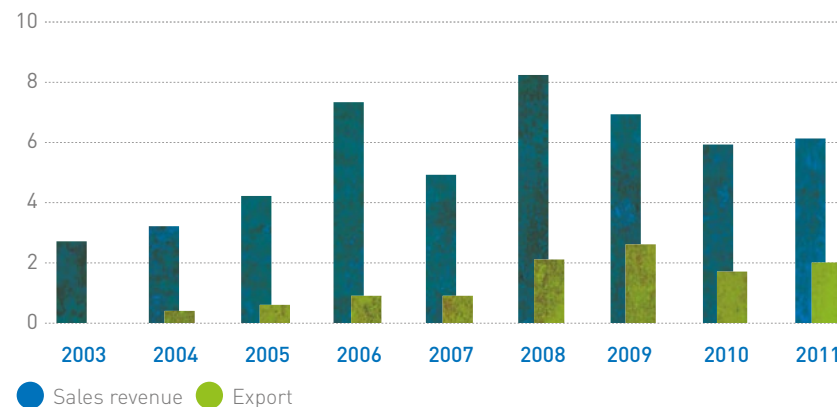
In 2011 the sales revenues of Rifas amounted to 6 million euros which was 3.6% more than a year before. Although the sales revenues of the subsidiary remained at the same level in Lithuania as they were in 2010 the company was able to increase substantially its sales in foreign markets. The amount of sales increased considerably in Latvia (10%), Finland (15%), Denmark (8 fold) and Norway (58%). Poland, USA and Brazil opened up as new markets for the company. Sales to the East, however, decreased. All in all exports formed 32% (2010: 28%) of total sales of Rifas.

Almost half of the sales revenues were earned from the management of contractual projects and the other half from the sales of project based products and services. Distribution units formed the largest share of product selection. They were followed by different control systems and switchboards.

The year was characterised by active sales work in order to win new orders and projects in existing, as well as new, markets with long-term, as well as new, customers. Since the subsidiary is focusing on Swedish and other Nordic countries' markets it participated for the second time in the specialised international fair Elmia Subcontracor in Sweden to present its products and meet potential customers.

IN 2011 THE SALES REVENUES OF RIFAS AMOUNTED TO 6 MILLION EUROS WHICH WAS 3.6% MORE THAN A YEAR BEFORE. THE AMOUNT OF SALES INCREASED CONSIDERABLY IN LATVIA 10%, FINLAND 15%, NORWAY 58% AND DENMARK 8 FOLD.

Rifas UAB sales revenue
million euros



In addition to finding new customers and markets the company was focusing in 2011 on identifying different opportunities in the area of (renewable) energy and developing new innovative solutions. In the third quarter of 2011 Rifas developed and introduced a solar energy

power station with a capacity of 50 kW which, due to the favourable repurchase price of electric energy, covers most of the costs of the Lithuanian subsidiary on electric power. This innovative power station also allows to test other solar energy solutions.

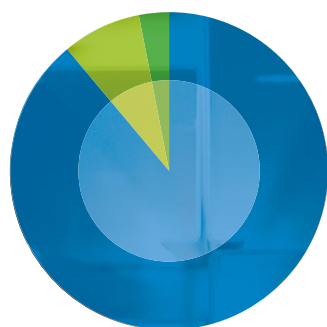
In 2011 the internationally accredited certification agency Bureau Veritas recognised that company's activities were in compliance with the international standards of environmental management, ISO 14001 and occupational health and safety, OHSAS 18001. The company's organisation of production has been in line with the international quality standards, ISO 9001, since 2003. As to other development and training projects the modernisation and optimising of production processes, which had lasted for two years, as well as training programmes for employees for increasing exports and improving the efficiency of new production technologies were completed. The company applied successfully for European Union funds to support these projects.

"In addition to finding new customers and markets the company was focusing in 2011 on identifying different opportunities in the area of (renewable) energy and developing new innovative solutions."

Mindaugas Slapsys
Rifas Group, Managing Director

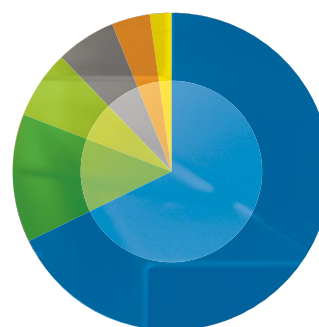


In 2012, the company is planning to continue to extend its product line, focusing on the development of various renewable energy opportunities and solutions, as well as to locate new customers and win new projects in domestic as well as foreign markets. In order to find new markets the company plans to continue participating in specialised fairs. The customers can be assured of the quality of the products and solutions offered by the company on the basis of its previous projects, appropriate production capacity, the meeting of supply deadlines and the high quality of the products.



Revenue by product group

- Equipment for industry sector **89%**
- Equipment for building sector **8%**
- Equipment for energy/power distribution **3%**



Revenue by market

- Lithuania **68%**
- Norway **13%**
- Latvia **7%**
- Finland **6%**
- Other EU countries **4%**
- Others **2%**

Real Estate Holding and Other Activities

The sales revenues of the real estate segment (parent company) and other non-segmented activities (parent company and Harju Elekter AB) totalled 10.4% of the consolidated sales revenue, out of which intermediary sale of products formed 50.2%, rental income 42.6% and income from mediation and rendering of services formed 7.2%.

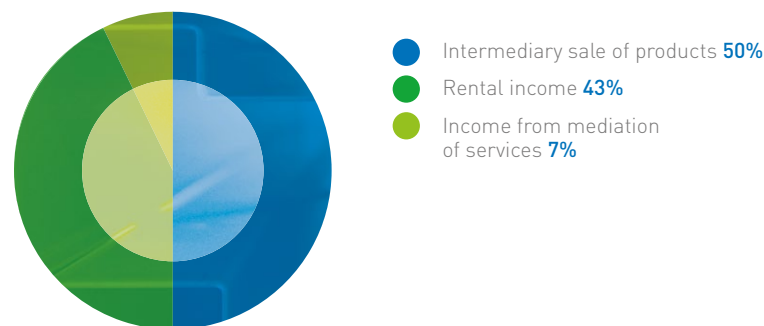
Real estate holding

The sales revenue of this segment was 2.4 million euros, having decreased by 8.4% compared to the same period a year before. Upon the opening of the energy market, many clients started to buy electricity on the open market, which was the main reason for the sales revenues of the real estate segment decreasing. During the twelve months under review, revenues from the intermediary sale of electricity decreased by 0.2 million euros. To some extent it had also to do with the fact that the fourth quarter was warmer than average. 86.2% of the segment's revenue was formed by rental income, 11.2% by rendering public services and 2.6% by rendering other services. Rental income increased by 1.9% amounted up to 2.1 million euros.

Other activities

During the reporting period, the sales revenues of other non-segmented activities increased by 24% amounting to 2.4 million euros and forming 5.2% of the Group's sales revenues. The main revenue

Revenue by activity



source was the intermediary sale of products. The recovery of the economy has also brought along the increase in sales volumes. Revenue from the sales of other services was 17.6 (2010: 129.2) thousand euros.

AS Harju Elekter

AS Harju Elekter is the parent company of the Group. Its activities are divided into two segments – Real estate and Other activities. Unallocated activities include the coordination of co-operation within the Group, management of subsidiaries and related companies through their supervisory and management boards, management of the finances and investments of the Group and management of development and expansion activities as well as managing of personnel, IT and communication services and guaranteeing the

professional operation of the corporate stores. Stores located in Tallinn, Tartu and Keila sell both products of the Group and related companies and other goods necessary for electrical installation work mainly to retail customers and small and medium sized electrical installation companies.

The business activity of the Parent company gives 10% (2010:11%) from the consolidated sales revenues.

Harju Elekter AB

In 2010, the Group founded a representation and sales organisation, Harju Elekter AB, in Sweden. AS Harju Elekter has a share of 90% in the subsidiary while AS Vallin Baltic holds 10% of the share capital.

The main activity of the company is the intermediary sale of products. With the establishment of the subsidiary, Harju Elekter AB, the Group increased its presence in the Swedish market and created new opportunities for increasing sales by offering customers a wide selection of products, namely electro-technical products, manufactured by the companies of the Harju Elekter Group.

During the first years of activity, Harju Elekter AB has focused on the mapping of the market; finding out the needs and demands of the customers; bringing the products and solutions of the Group in conformity with local requirements; drawing up advertising materials for products and services; and distributing information. In 2011, the subsidiary accounted for 0.3% of the consolidated sales revenue.

Related Company

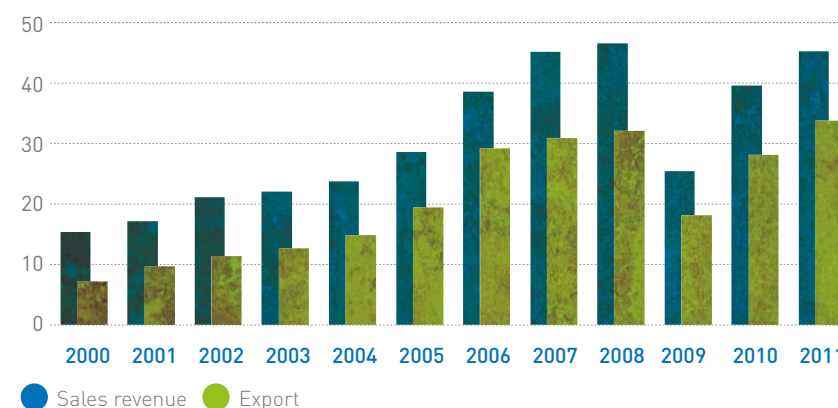
AS Draka Keila Cables

As at the end of 2011, the Group had a share of 34% in the related company, Draka Keila Cables. The economic results of the related company are presented in the consolidated financial statement using the equity method. A profit 497 (2010: 61) thousand euros from related company was consolidated in 2011.

AS Draka Keila Cables is the largest cable manufacturer in the Baltic States. The company's share capital is divided between cable manufacturer Prysmian Group (66%) and AS Harju Elekter (34%). The Keila factory specialises mainly in the production of aluminium power cables. In addition to its own products the company, as the representative of the Prysmian Group in the Baltics, markets a wide range of Prysmian Group products. The production of the company is mainly marketed in Estonia, Latvia, and Lithuania, as well as in Scandinavian and other EU countries and even further afield.

2011 saw the merger of Draka Holding N.V. and Prysmian S.p.A., as a result of which the largest cable producer in the world, Prysmian Group, was formed. The headquarters of the group is located in Milan, Italy. Prysmian Group is a publicly traded company, the shares of which are quoted on the Milan Stock Exchange. It is represented on every continent with 98 plants and more than 22,000 employees. The group is the market leader in every segment of the industry: production of energy cables, telecommunication cables, special cables and construction cables. As a result of the merger, new markets opened for the products of Keila plant and local

AS Draka Keila Cables sales revenue million euros



customers gained better access to products not produced by Draka. The availability and security of supply will also improve considerably.

For AS Draka Keila Cables, the year 2011 was a successful one. The main goal was to maintain its market position during the merger of the two large groups and this goal was achieved as the sales revenue increased by 14%, amounting to 45.4 million euros, out of which 11.5 million euros accounted for sales on the domestic market and 33.9 million euros for export. The increase in sales revenue was achieved due to the slight increase of market share in the Baltic States as well as the increase of sales within the Group.

In the field of production, all the efficiency indicators of the company improved: surplus spending on materials continued to decrease and security of supply as well as productivity per employee improved.

In 2011, the company made investments in the amount of 334 thousand euros. It invested in the improvement of the efficiency of the plant and the reliability of the machinery as well as in the reduction of surplus spending of materials. In the field of developing the quality system, significant progress was made in relation to the

introduction of the OHSAS occupational health and safety management system and the certification thereof by Lloyds Register Quality Assurance.

In 2012, focus is going to be still on the reduction of surplus spending on materials, improvement in production efficiency and the increase of production capacity through the improvement of the existing machinery.

Other Financial Investments

SIA Energokomplekss

SIA Energokomplekss is a sales organisation, founded in 2006. At the beginning the Group's participation in the Latvian company SIA Energokomplekss was 10% and it was increased to 14% in 2009. Holding in SIA Energokomplekss makes it possible to participate together in invitations-to-tender for MV and LV equipment in Latvia. In 2011, the company paid dividends and AS Harju Elekter received dividend profit in the amount of 24.6 thousand euros.

PKC Group Oyj

PKC Group Oyj (hereinafter PKC) is a Finnish publicly traded company, which manufactures cable insulation for the automobile,

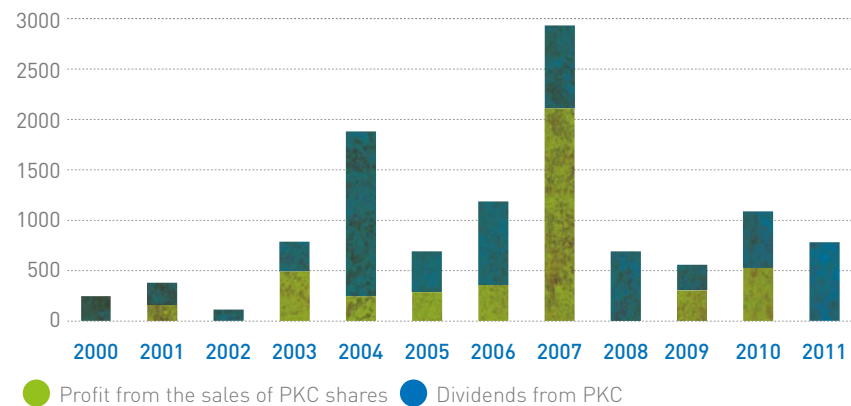
telecommunication and electronics industries. In 2011, PKC acquired the companies in Europe and America, becoming the largest manufacturer of electrical equipment for truck industry in the world. Net sales of PKC were 550.2 million euros and the Group employees 21,528 people at the end of the year.

PKC shares are quoted on the Helsinki Stock Exchange. AS Harju Elekter is one of the largest holders of PKC shares with a stake of 6.6% as at December 31, 2011. PKC shares are valued in the balance sheet according to market price. The market price of the shares decreased in 2011 by 3.94 euros and on the last day of trading the price of a share on the Helsinki Stock Exchange was 11.43 euros (2010: 15.37 euros). During the period of 12 months the fair (i.e. market) value of financial assets decreased by 5.5 million euros.

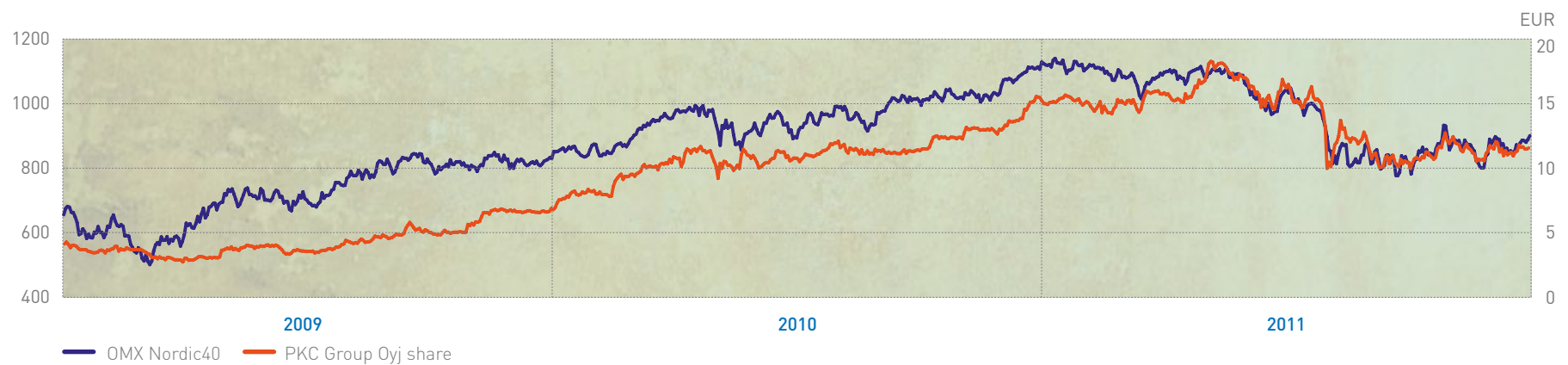
In 2010, the value of the financial assets increased by 12.3 million euros.

For the financial year of 2010, PKC paid a dividend of 0.55 euros per share which is a total of 0.77 million euros, compared to 0.40 euros per share in 2010, totalling 0.56 million euros. In 2010, the Group sold 80,000 PKC shares, the nonrecurring profit for which amounted to 0.52 million euros.

Profit earned from financial investment
thous. euros



Share of PKC Group Oyj in 2009-2011

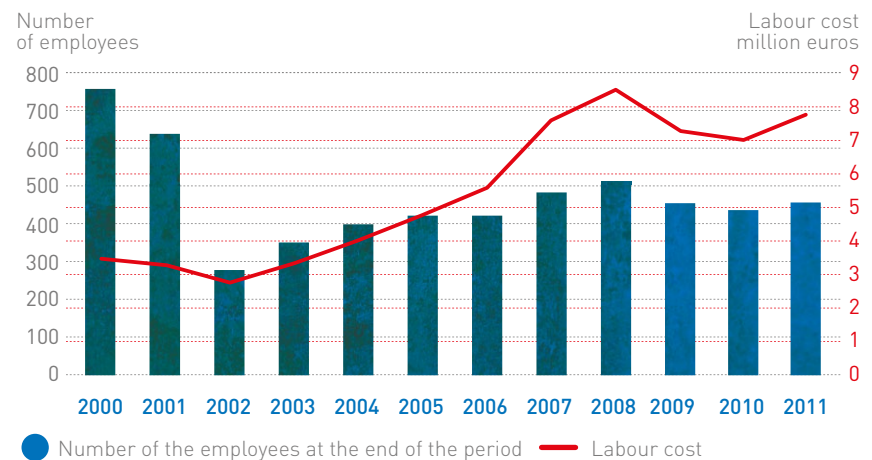


Personnel

The revival in the economy brought along the revival of the labour market within the Group's region of operation. But although the number of orders and production volumes increased, companies focused rather on increasing the production efficiency and postponed the creation of new jobs. Finding and hiring qualified personnel with experience has become more difficult. In spite of the fact that the unemployment rate in the region is still high, there are not enough qualified specialists. The situation is not helped either by the 'non-attractive' wage level offered in this field of activity as a whole or the outflow of qualified specialists, especially from Estonia and Lithuania. The lack of qualified personnel has brought with it the pressure to raise wages. After several years, it was deemed necessary to hire additional workers for the summer period (e.g. trainees).

In 2011, the average number of employees of the Group was 427 (2010:424). As at the balance day on 31 December, there were 457 (2010: 440) people working in the Group, which was 17 employees less than on the beginning of the year. The expenses on staff increased during the year. Employee wages and salaries totalled 7.7 (2010: 7.0) million euros in the year 2011. The average wages per employee per month have increased by 14% amounted 1,502 euros. The biggest increases took place in Finland and Lithuania. In 2011, the wage expenditure of the Swedish subsidiary was added. The average wage in Finland and Sweden exceed those in Estonia and Lithuania by almost triple.

Personnel and labor costs



The majority of the Group's employees – 298 people – worked in Estonia, including 47 people who worked in the parent company. At the end of the year, there were 90 people working in Finland, 67 in Lithuania and 2 in Sweden. From 457 employees working in the Group 353 of them were men and 104 women, 105 of whom have higher education, 294 people have secondary or vocational secondary education and 58 have basic education. In order to improve the skills and qualifications of employees joint in-service training

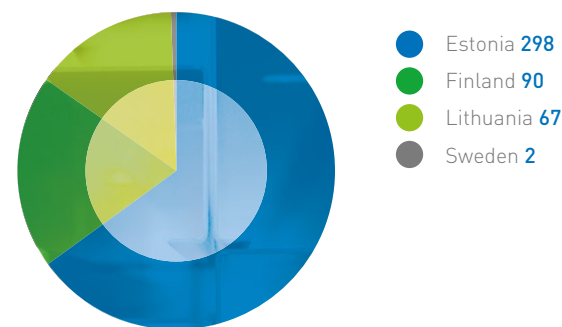
courses have been started in co-operation with higher and vocational educational institutions.

Harju Elekter Group is characterised by its solid organisational culture. The high percentage of long-term employees motivates newcomers to preserve and develop this culture. 59.3% of employees have worked in the Group for over five years.

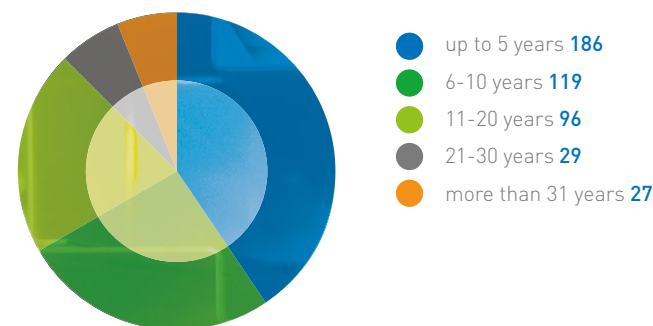
The average age of the Group's employees has remained stable or even declined slightly, and was 39.6 years in the accounting year. To find new competent employees, Harju Elekter co-operates with universities and vocational schools which in summer use the companies of the Group either as their basis for vocational training or in the framework of in-service training or retraining programmes. For ten years now, AS Harju Elekter has had close co-operative relations with Tallinn Technical University and in 2010 the company was awarded the Golden Sponsor title. Over the years, altogether 38 Bachelor's or Master's degree students have participated in the scholarship programme and nine young engineers are currently employed by the Group. Also Harju Elekter carries out several co-operation programmes with the Tallinn Vocational Education Centre, Tallinn Polytechnic School and other schools. Finnish subsidiary had a close co-operation with Satakunta University of Applied Sciences and Tampere Technical University.

During the reporting period, companies in the Group continued to focus on optimising costs and making their operation more efficient. Field exercises and training organised for employees at companies located in Estonia were aimed at raising the efficiency and implementing the 5S-model. The subsidiary, AS Harju Elekter Teletehnika, was chosen to participate in the largest export development

Employees by country



Length of service



project in Estonia, Export Revolution, organised by Enterprise Estonia and the Marketing Institute. As a result of the project, the company hired a qualified Sales Manager.

The Group has many possibilities for motivating its personnel:

- a bonus system linked to operating profit. The scheme involves all employees. Bonuses dependent on profit motivate employees to always consider the outcome of their work for the company as a whole;
- share-option schemes, aiming at involving members of the directing bodies and employees of companies of the Group as well as members of the boards of related companies as shareholders to motivate them acting in the best interest of the Group;

- the cross company as well as cross-border employee exchange programmes, promote the rapid development of knowledge and skills within the Group and offer rotation opportunities.

Harju Elekter is a responsible and caring employer offering its employees contemporary working and recreation conditions. The Group is involved in constructive co-operation with the Keila Industrial Park trade union, one of the main outcomes of which is collective labour agreement. The stability, social guarantees and motivation scheme offered by Harju Elekter promote trust between the company and its employees and prevent the disruption of work.

Investments and Development

In 2011 the Group invested 2.5 (2010: 0.3) million euros in real estate, 0.5 (2010: 2.3) million euros in tangible fixed assets and 0.1 (2010: 0.1) million euros in intangible fixed assets, totally 3.1 million euros. In 2011, the investment by the Group exceeded the investment in 2010 by 12.8%.

As a whole the investments can be divided into two categories: half of them aimed to support and ensure the Group's further development and the other half includes renewable investment that is made to ensure that production premises and technology are kept up-to-date and comply with the quality requirements.

The Group built a new 5000 sq.m large production complex for AS Saajos, manufacturer of fire-proof and safety doors. The construction completed in December 2011 and the production premises have been given for a long-term lease to the company. The acquisition cost of the production premises amounted to 2.24 million euros.

The most extensive and important development project of recent years has been the introduction of the new AX2009 production management and accounting software programme in the parent company as well as its subsidiaries in Estonia, which involved additional investments in servers and production feedback terminals as

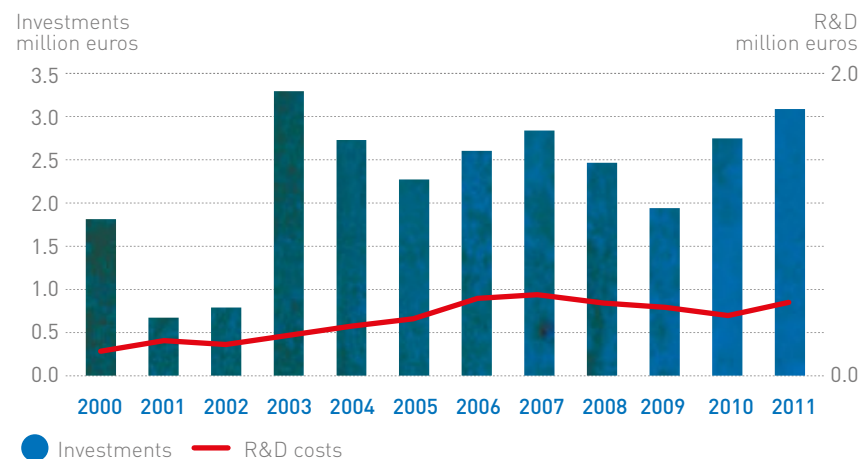
well as software licenses. Although the largest investments were made in 2009 and 2010, the company focused during the reporting year on identifying, adjusting and introducing new modules and additional options. In 2011, investments in accounting software licenses amounted to 57 thousand euros while investments in information technology equipment amounted to 59 thousand euros.

Work involving grants from the European Union structural funds in the development projects of the Group continued. The projects were mainly aimed at developing key activities of the companies, preparing strategies and training the personnel (improvement in qualifications, team work training). With assigned technology grants the production capability will continue to be enhanced through improving the technology which resulted in the improved quality and security of supply necessary for successful export activities as well as shorter production cycles. In 2011, assigned grants were received for acquiring machinery and equipment in the amount of 59 (2010: 128) thousand euros, for personnel training in the amount of 21 (2010: 89) thousand euros and for development in the amount of 19 (2010: 29) thousand euros, totalling 99 (2010: 246) thousand euros.

According to the development principles of the Group, Harju Elekter aims at the continuous modernising and development of new products to meet the needs of its customers and to improve production technology. In 2011 the development costs, at cost price, of the Group amounted to a total of 0.47 (2010: 0.39) million euros, accounting for 1.0% of the Group's sales volume.

The main product development resources of the Group are concentrated in the Estonian subsidiary, Harju Elekter Elektrotehnika, Satmatic Oy and Rifas UAB specialise in industrial products and the development of renewable energy solutions.

Investments and development



During the reporting period, the Estonian product development team developed and introduced a new frame system for low voltage distribution panels that serve as a basis for many products. In the second half of the year, the system was used for manufacturing several types of distribution equipment for substations as well as the 19" modular system automation equipment. The development of containerized substations for quay crane power supply also continued. The market for the product is wide and, therefore, they can be seen in many parts of the world. In order to penetrate the Norwegian and Swedish markets, several substation solutions for infrastructure as well as wind parks were developed. Each year the substation market offers more and more challenges in terms of product development and, therefore, the designing capacity in the field was increased by hiring another engineer. Alongside the large development projects several new models of distribution boards were developed for serial production to satisfy the needs of current as well as future custo-

mers. At the electro-technical engineering fair in Finland the Group introduced the new Sivacon S8 distribution and control board manufactured under license from Siemens. The NEX medium voltage switchgear equipment for primary applications was complemented by a 2500A system. In co-operation with Ensto, the Group participated in development of loading stations for electric car rally. Increased production volumes also brought along arise in production capacities of copper current rails, for which a 3D designing option was introduced.

Subsidiaries in Finland and Lithuania focused on a development project related to renewable energy and offering suitable solutions

related to it. In autumn 2011, a solar energy station with the capacity of 50kW was installed on the roof of the Rifas UAB production site, which covers largely the yearly electricity expenses of the subsidiary due to the favourable buy-back price as well as making it possible to test different solar energy solutions. The year before, a 30kW solar energy station was introduced by Finnish subsidiary, Satmatic Oy. The latter also supplied the first applications manufactured on the basis of the Sivacon S8 system; developed additional time adjustment equipment for new models of heating and loading panels for car parks provided with a remote control system as well as a faster 32A loading option for transport sector loading systems. A novel solution based on GPRS-system was developed for controlling street lighting.

Quality Management and Environmental policy

A high quality business and management model is one of the assets of the Harju Elekter Group. The objective is to develop business processes, practices and systems based on the principle of continuous improvement and in accordance with the customers' needs and expectations. Quality development is a continuous process where every employee has a central role to play. The Group particularly emphasises the handling of customer feedback so that the necessary information reaches the relevant employees with minimum delay and that corrective and preventive action can be effectively implemented.

The production processes of Harju Elekter do not have a significant negative impact on the environment. Nevertheless, the companies of the Group monitor and measure their environmental impact according to the environmental policy, organise hazardous waste collection and transfers to waste handling companies. Taking care of the environment is part of the daily routine of all the Group's companies. The companies of the Group follow a system developed for the collection of packages and packaging waste and for the recovery of packaging waste in accordance with the requirements of the Packaging Act. The Group is a contractual partner of the non-profit

association, Estonian Pack Cycling. The stores of the AS Harju Elekter commerce group organise the collection, recycling and disposal of unusable electronic devices (boilers) in accordance with the Waste Act.

In 2011, subsidiaries Satmatic Oy and Rifas UAB underwent an auditing of the companies' business processes in line with international environmental management quality standard, ISO 14001. In addition, Rifas UAB underwent an audit of its occupational health and safety management system in line with OHSAS 18001 international standards. Certificates of conformity were issued in all cases.

Subsidiary AS Harju Elekter Teletehnika successfully passed the audits for recertification of the quality and environmental management systems ISO 9001:2008 and 14001:2004, carried out by the Bureau Veritas Certification. Regular annual audits were carried out at AS Harju Elekter Elektrotehnika. The next recertification in Rifas UAB and Satmatic Oy are scheduled to take place in 2012. Consequently, the organisation of production in all the companies of the Group meets the requirements of the international quality and environmental management systems, ISO 9001 and ISO 14001.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Harju Elekter Elektrotehnika	ISO 9001 , ISO 14001				•			up to 1/2010			up to 1/2013	
Harju Elekter Teletehnika			ISO 9001, ISO 14001			•		up to 1/2011				up to 1/2014
Rifas				ISO 9001			•			up to 12/2012		ISO14001 OHSAS18001
Satmatic				ISO 9001			•			up to 10/2012		ISO14001
Draka Keila Cables	ISO 9001, ISO 14001			•			•			up to 3/2012		

• – resertification

Social Responsibility and Charity

The environment around us creates, as well as limits, our opportunities to act. During its almost half-century history of operation Harju Elekter has become one of the largest companies in the region and we feel we have to take responsibility for the general development of society as well as the wellbeing of the local community. Over the years four major areas of sponsorship have evolved within the Group.

Bearing of social responsibility

Harju Elekter as a local large-scale enterprise is conscious of a certain responsibility for the general development of the region and the well-being of the local community focusing mainly on children and youth by supporting their educational efforts and spending their leisure time in good surroundings. Therefore, the Group has concluded long-term sponsorship agreements with the Keila School as well as kindergartens, sport and hobby clubs in Keila.

Supporting the education of engineers in Estonia

The company works in close co-operation with Estonian educational institutions in order to promote and develop the educating of engineers. Harju Elekter is a golden sponsor of Tallinn Technical University granting every year up to three scholarships for Bachelor's as well as Master's degree students in the field of electricity and mechanics. The Group also carries out several co-operation programs with the Tallinn Vocational

Education Centre, Tallinn Polytechnic School and the Tallinn Construction School. Finnish subsidiary had a close co-operation with Satakunta University of Applied Sciences and Tampere Technical University.

Supporting and inspiring young sportsmen

The company has, above all, supported youth sports - focusing on long-term and constant sponsorship and taking into account the popularity of the sports. For several years the company has sponsored the young skiers and athletes of Nordic countries combined with the Estonian Ski Association. As from the season 2008/2009 the company has also supported the young skiers, Algo Kärp and Kein Einaste. The youth projects of the Estonian Ski Association are also aimed at the future focusing on the Winter Olympics in Sochi in 2014.

Promoting recreational sport among the employees

In co-operation with the Harju KEK Athletic Club we do everything we can to facilitate an active and sporting lifestyle for our employees. Healthy workers, full of energy, represent a priceless value to the company.

Total amount of different support programmes in 2011 amounted to 15.1 (2010: 16.8) thousand euros.

Corporate Target for 2012

In 2012, the key factor for the future development of the Group lies in the increase of sales outside Estonia, namely in neighbouring countries, but also in other parts of the European Union and the world. Work in finding opportunities for penetrating new foreign markets also continues. Focus is on Nordic as well as European Union markets and projects as well as on finding and involving new customers and co-operation partners. At the same time the Group continues to look for attractive companies which could be, in case of a mutual interest, associated with the Harju Elekter Group. At the same time the importance of the domestic market should not be underestimated.

The focus is also on more dynamic use of symbiotic marketing opportunities between the companies of the Group; on taking advantage of mutual information channels and advertising materials; strengthening of the Harju Elekter trade mark with the aim of increasing the competitiveness of the Group and creating additional benefits and possibilities for marketing activities. As from 2011, all of the Group's Estonian companies operate under the Harju Elekter trademark.

The Group directs more and more resources into the development of products meant for end customers, in which lie long-term success and greater profitability. As regards the range of products and services the future aim is to offer a comprehensive service, starting with the development and production of the product and ending with the provision of guarantees and maintenance services. As far as project based works are concerned co-operation and mutual understanding is of vital importance.

The Group wishes to contribute to the operational reliability of the power network on the domestic market. The success of the Group is ensured by product development which takes into account the needs and demands of customers, a wide range of professional products and sales of its own products. This is strongly facilitated by following and supporting the development plans and guidelines of the sector, as well as customers and co-operation partners.

Modern consumers are more and more oriented at energy efficient metering and monitoring possibilities and product solutions based on green energy. The targets and tasks of product development for the next few years have been drawn up bearing in mind these developments. Finding novel solutions and recognising new opportunities are the priorities of the development and engineering personnel of the Group's companies.

The expansion from product centred sales to the area of developing software programmes for controlling technological processes and power supply will continue. The goal is to offer clients comprehensive solutions which include electrical equipment, as well as programmes for their control.

The Group has made targeted efforts at increasing know-how by concluding license agreements and investing in the personnel which is mainly channelled through in-service training and an improvement in the qualifications of the staff. Closer co-operation between the companies of the Group at every level and making flexible use of the resources of the Group's companies is also crucial.

Share and Shareholders

The shares of Harju Elekter were first listed on the Tallinn Stock Exchange on September 30, 1997. Tallinn Stock Exchange is part of the largest exchange company in the world, the NASDAQ OMX Group, which was formed in 2008 after the merger of the Baltic and Nordic stock exchange group OMX and the NASDAQ Stock Market. It delivers trading, exchange technology and public company services across six continents, with over 3,900 listed companies.

The share capital of AS Harju Elekter is 11.76 million euros which is divided into equal ordinary shares. The symbol of a AS Harju Elekter share in NASDAQ OMX is HAE1T. ISIN: EE3100004250. The nominal value of a share is 0.70 euros. All shares are freely negotiable on the stock exchange and each share confers an equal right to vote and to receive a dividend. All the shareholders of the company are equal and there are no separate restrictions or agreements concerning the right to vote. According to the information available to AS Harju Elekter the agreements concluded with the shareholders do not include any restrictions related to the transfer of shares; neither do they include any specific power of audit.

In 2011, the NASDAQ OMX Tallinn index OMXT fell by 23.9% to 531.17 points. During the year, 83,698 transactions were made on the stock exchange, with turnover reaching 187.4 million euros. Although the number of transactions was at the expected level, the turnover of

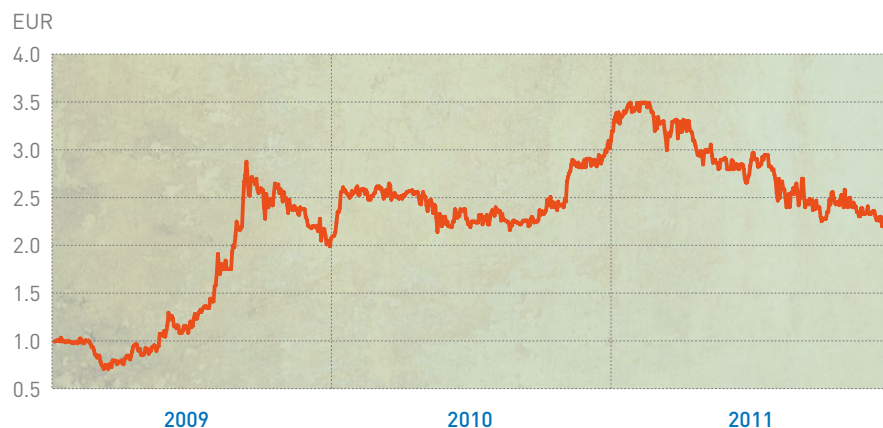
Key share data:

EUR	2011	2010	2009	2008	2007
Number of shares (in thousand)	16,800	16,800	16,800	16,800	16,800
Nominal value	0.70	0.64	0.64	0.64	0.64
Closing price	2.28	3.02	2.05	0.99	3.40
Market value (in million)	38.30	50.74	34.78	16.63	57.12
Earnings per share, EPS	0.17	0.13	0.07	0.15	0.32
P/E	13.41	23.39	28.14	6.76	10.58
Dividend per share	*0.07	0.06	0.05	0.06	0.13
Dividend yield (%)	3.1	2.0	2.5	6.5	3.8
Dividend payout ratio (%)	42.4	46.5	69.9	43.6	39.8

* Proposal of the Management Board

EUR	2011	2010	2009	2008	2007
Highest price	3.54	3.14	2.99	3.45	5.0
Lowest price	2.19	2.02	0.67	0.95	3.0
Closing price	2.28	3.02	2.07	0.99	3.01
Change (%)	-23.8	45.9	107.0	-70.9	-18.1
Traded shares (pc)	663,917	2,039,910	1,559,830	4,634,592	5,787,606
Turnover (in million)	1.88	5.40	2.14	11.39	21.00

Share of AS Harju Elekter in Tallinn Stock Exchange 2009-2011

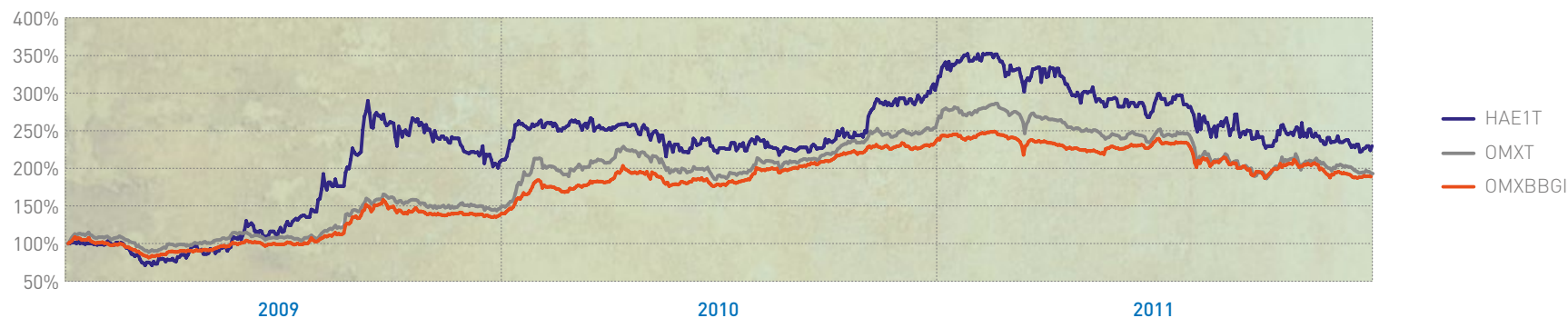


stock exchange transactions remained the lowest in the history of the stock exchange. The average daily turnover of the stock exchange was 0.74 (2010: 0.97) million euros and the average transaction volume was 2,239 (2010: 2,402) euros.

Similar to the Tallinn index, the share price of AS Harju Elekter dropped in 2011 by 23.8% to 2.28 euros and, as of December 31, the market value of the Group was 38.3 million euros. During the year, trading activity in Harju Elekter shares decreased together with the turnover amounting to only 664 thousand shares. The number of shareholders, however, continued to increase. By the end of the year the company had 1,455 shareholders.

A comparison of AS Harju Elekter share indexes 2009-2011

for more information: www.nasdaqomxbaltic.com/market/

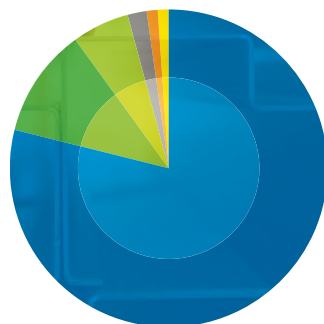


Shareholders structure

At the end of 2011, AS Harju Elekter had 1,455 shareholders. The number of shareholders increased during the year by 12 persons. The largest shareholder of AS Harju Elekter is AS Harju KEK, a company based on local capital which as at December 31, 2011 held 32.14% of AS Harju Elekter share capital. Members of the supervisory and management board and persons or companies associated with them hold 16.8% of the shares. The comprehensive list of shareholders is available at the website of the Estonian Central Register of Securities (www.e-register.ee).

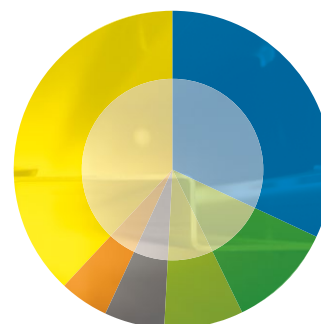
Shareholder structure by size of holding at 31 December 2011

Holding	No of shareholders	% of all shareholders	% of votes held
→ 10%	2	0.14	43.45
1.0 – 10.0%	8	0.55	29.11
0.1 – 1.0%	48	3.29	14.08
← 0.1%	1,397	96.02	13.36
Total	1,455	100.0	100.0



Shareholders by country

- Estonia **79%**
- Luxemburg **11%**
- USA **6%**
- Sweden **2%**
- Finland **1%**
- Others **1%**



> 5% shareholders

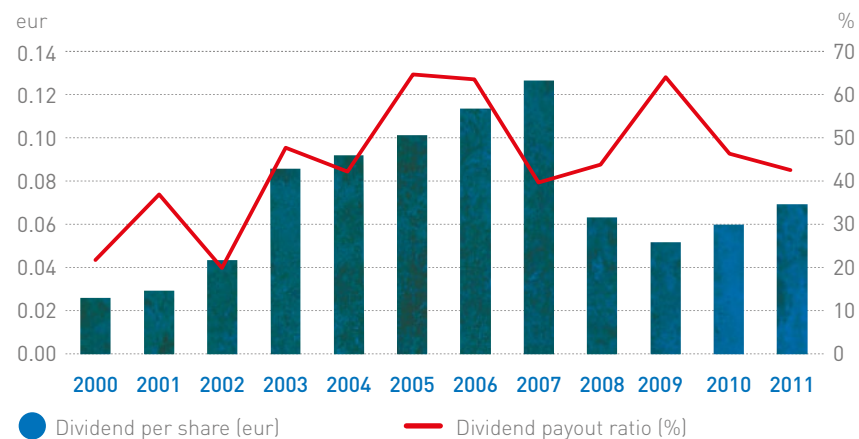
- AS Harju KEK **32%**
- ING Luxembourg S.A. **11%**
- Mr. Lembit Kirsme **8%**
- Mr. Endel Palla **6%**
- Citibank (London) / Pohjola Bank PLC **5%**
- Others **38%**

Dividends

According to the dividend policy of the Group one third of the financial year's net profit is paid out as dividends. In addition the Group has an established practice of paying out dividends on gains from other financial investments. The actual ratio will be determined based on the Group's cash flows, development prospects and funding needs.

As a result of strong capitalisation the Management Board proposes to pay a dividend of EUR 0.07 per share, totally 1.18 (2010: 1.05) million euros for the financial year 2011. This is 42% (2010: 46%) from total net profit.

Dividends



For dividend history and ratios, please refer to the Key share data table.

Corporate Governance

Corporate Governance Report 2011

As a company Harju Elekter follows the Articles of Association of the company, the relevant legislation of the countries in which it operates and as a public company, Harju Elekter also observes the rules of the Tallinn Stock Exchange, the Principles of the Corporate Governance Code and the requirements to treat investors and shareholders equally. Accordingly, Harju Elekter complies, in all material respects, with the provisions of CGC. Explanations for departures from CGC are provided below. In addition, our corporate governance report contains information on the annual general meeting of 2010, the supervisory board, the management board and explains Harju Elekter's governance structure and processes.

CGC Article 1.3.3

An issuer shall make attendance and participation in the general meeting possible by means of communication equipment (e.g. the Internet) if the technical equipment is available and where doing so is not too cost prohibitive for the issuer.

Since Harju Elekter does not have the required technical equipment and acquisition of such equipment would be costly, currently attendance and participation in general meetings is not possible by means of communication equipment.

CGC Article 2.2.1

The Chairman of the Supervisory Board concludes a contract of service with the member of the Management Board on the fulfilment of his or her duties.

The Management Board of the company has just one member. Managing director/CEO is responsible for the performance of company's strategic areas. He also concludes the contract.

CGC Article 2.2.7

The basic salary, performance pay, severance pay, other payable benefits and reward systems of each member of the Management Board, as well as their significant characteristics are presented in a clear and unambiguous form on the issuer's website and in the CGC report. The presented data are considered clear and unambiguous if they directly express the extent of the expenses to the issuer or the extent of the likely expenses as of the day of disclosure.

The pay of a member of the Management Board is given to Managing Director/CEO. The rate of pay of a member of the Management Board and the severance pay is set out in the contract of service and

shall not be disclosed to the public under an agreement between the parties. The manager is entitled to receive a severance payment in the amount of 10 months' remuneration of a member of the Management Board.

Performance pay is paid to the members of the Management Board on an equal basis with the parent company's administrative. The performance pay is distributed according to the basic salary and work performance and the performance pay of the members of the Management Board is approved by the Chairman of the Supervisory Board. 80% of the performance pay is paid by quarter; the remaining 20% is paid after the results of the financial year have been determined.

Managing Director/CEO is paid an annual bonus of 0.3% of the consolidated net profit (belonging to the owners of the parent company) in total. The annual bonus is approved by the chairman of the Supervisory Board and is paid after the group's annual statement has been audited.

Additional remuneration for the length of employment is paid to all permanent employees (incl. Managing Director/CEO) on the basis of their length of employment, including permanent employment in the Harju Elekter Group. The rate of additional remuneration is up to 10% of the basic salary.

CGC Article 2.3.2

The supervisory council shall approve transactions that are significant to the issuer and are entered into between the issuer and a member of its management board, or another person connected or close to them, and shall determine the terms of such transactions. Transactions approved by the supervisory council between the

issuer and a member of the management board, or a person connected or close to them, shall be published in the issuer's Corporate Governance Report.

In 2011 no such transactions were performed.

CGC Article 3.1.3

The Supervisory Board shall regularly assess the activities of the Management Board and its implementation of the Issuer's strategy, financial condition, risk management system, the lawfulness of the Management Board activities and whether essential information concerning the Issuer has been communicated to the Supervisory Board and the public as required. Upon the establishment of committees (audit committee, remuneration committee etc.) by the Supervisory Board, the Issuer shall publish on its website their existence, duties, membership and position in the organization. Upon change of the committee structures, the Issuer shall publish the content of such changes and the period during which the procedures are in effect.

In June 2010 the Supervisory Board of AS Harju Elekter formed the Audit Committee of the company following the relevant requirement provided for by the Authorised Public Accountants Act, affirmed its Statutes and appointed Madis Talgre and Andres Toome as its members. The Audit Committee has the following tasks: observe and analyse the processing of financial information; the efficiency of risk management and internal audit; the process of audit control of annual accounts and consolidated accounts; the independence of the audit company and the auditor who represents the firm of auditors on the basis of law; as well as to submit proposals and recommendations to the Supervisory Council in issues provided by law. Details of the Audit Committee and its position in the organisation will be available on the company's website.

CGC Article 3.2.5

The rate of the member of the Supervisory Board pay and the payment procedure established by the general meeting shall be presented in the issuer's CGC report, separately pointing out the basic salary and additional remuneration (including severance pay and other payable benefits).

The shareholders' general meeting of Harju Elekter has the competence to elect and approve the membership of the Supervisory Board and the term of its appointment. The shareholders' general meeting which was held on 26.4.2007 appointed the membership of the Supervisory Board for the following 5 years, setting 8,000 kroons (511 euros) a month as the pay rate for a member of the Supervisory Board and 25,000 kroons (1,598 euros) a month for the Chairman of the Supervisory Board, while the Chairman of the Supervisory Board working as the company's R&D manager shall be subject to the reward system used in AS Harju Elekter (see also CGC explanation for CGC Article 2.2.7). No severance pay is allotted to members of the Supervisory Board.

CGC Article 3.2.6

If a member of the Supervisory Board has attended less than half of the meeting of the Supervisory Board, this shall be indicated separately in the Corporate Governance Recommendations Report.

During the reporting year, there was only one member who attended less than half of the meetings.

CGC Article 3.3.2

A member of the supervisory council shall promptly inform the chairman of the supervisory council and the management board of any business offer related to the business activity of the issuer made to

the member of the supervisory council or a person close or connected to the member of the supervisory council. All conflicts of interests that have arisen during the reporting year shall be disclosed in the Corporate Governance Report along with their resolutions.

Members of the Supervisory Board must avoid any conflict of interest and follow the requirements of prohibition on competition. The Supervisory Board and the Management Board work in close co-operation, acting according to the Articles of Association and in the best interests of the company and its shareholders. In 2011 no conflicts of interests occurred.

CGC Article 5.3

Among other things, the issuer's general strategic trends approved by the Supervisory Board are available for shareholders on the issuer's website.

The company's Management Board believes that strategy is a business secret and should not be made public. However, the general trends and significant topics have been included in the Management Board's management report published as a mandatory annex to the annual report.

CGC Article 5.6

The issuer discloses the times and places of meetings with analysts and of presentations and press conferences for analysts and investors or institutional investors on the issuer's website. The issuer enables shareholders to participate in these events and makes presentations available on its website. The issuer shall not hold meetings with analysts or presentations for investors immediately before the dates of disclosure of financial reporting.

The company's activities are always based on the principle of fair treatment of shareholders. Mandatory, significant and price sensitive

information is first disclosed in the system of the Tallinn Stock Exchange and then on the company's website. In addition, each shareholder has the right to request additional information from the company if necessary and to arrange meetings. The company's Management Board does not consider it important to keep a time and agenda schedule of meetings with different shareholders. This rule applies to all meetings, including those immediately preceding the disclosure of financial reporting.

CGC Article 6.2

Electing the auditor and auditing the annual accounts.

The general meeting of the shareholders of Harju Elekter of 23.4.2009 elected an auditor for the company for the period 2009–2011; the elected auditor is the auditing company KPMG Baltics OÜ. Information on the auditor is available at the company's website on the Internet. The auditor will receive remuneration according to a contract and the amount of the remuneration will not be disclosed under an agreement between the parties. Pursuant to the guidelines of the Financial Supervision Authority from 24.9.2003 – “On the rotation of the auditors of certain subjects of state financial supervision” – the company arranges rotation of the auditor, ensuring the independence of the auditor by changing the executive auditor at least once in every five years.

Governance principles and additional information

A public limited company's AS Harju Elekter governing bodies are the shareholders' general meeting, the Supervisory and the Management Boards.

General meeting

The general meeting is the company's highest governing body who have competence for amending the Articles of Association and approving new ones, changing the amount of share capital, removal of members from the Supervisory Board and the termination of the activities of the company, making decisions on the division, merging and transformation of the company with the precondition that at least 2/3 of the shareholders represented at the general meeting

approve such decisions. General meetings may be annual or extraordinary. The annual general meeting convenes once a year within six months after the end of the company's financial year. An extraordinary general meeting is called by the management board when the company's net assets have declined below the level required by the law or when calling of a meeting is demanded by the supervisory council, the auditor, or shareholders whose voting power represents at least one tenth of the company's share capital. A general meeting may adopt resolutions when more than half of the votes represented by shares are present. The set of shareholders entitled to participate in a general meeting is determined 7 days before at the date of the general meeting.

The annual general meeting of 2011 was held on 29 April at Keskväljak 12 in Keila, Estonia. A total of 12,088,885 shares were represented (71.96% of the voting stock). The meeting approved the company's annual report and profit allocation proposal for 2010. In conjunction with the changeover to euro, the AGM also gave the approval to amendment to the Articles of Association and increase the share capital as well as conversion of share capital and shares from kroons to euros. Presentations were made by the chairman of the management board, chairman of the supervisory board and auditor.

Supervisory Board

The supervisory board plans the activities of the company, organises the management of the company and supervises the activities of the management board. The supervisory board meets according to need but not less frequently than once every three months. A meeting of the supervisory board has a quorum when more than half of the members participate. In 2011, the supervisory board met seven times. All members, with one exception, of the supervisory board attended all or most of the meetings. According to the Articles of Association, Harju Elekter's supervisory board has 3-5 members. The members are elected by the general meeting for a period of five years. The current supervisory board was elected by the annual general meeting in 2007 and it has five members.

In 2011, there were no changes to the Supervisory Board. The present members of board are Endel Palla (chairman), Ain Kabal, Lembit Kirsme, Madis Talgre and Andres Toome. Mr Palla has been working in Harju Elekter since 1969 (1985 -1999 as managing director) and keeps today company's R&D manager position. Mr Kabal is head of legal department of Viru Keemia Group AS and a lawyer, who has long-term experience in advising Group's companies on

legal issues. Mr Kirsme is a chairman of OÜ Kirschmann and has long-term experience with knowledge of the Group's business. Mr Talgre is a chairman of AS Harju KEK, the biggest shareholder of Harju Elekter (holding 32.14% of the shares of the company on 31.12.2011). Since 2007 Mr Toome (chairman of OÜ Tradematic) has been a member of the supervisory board. He complements the Board with investment experience. Two of the five members of the Supervisory Board - Ain Kabal and Andres Toome - are independent.

The Group does not give the members of the Supervisory Board any benefits related to pension, more than provided by the law.

At 31 December 2011, the members of the Supervisory Board owned in accordance with their direct and indirect ownerships totally 15.7% (2010: 15.5%) of Harju Elekter shares (note 23).

Management Board

The management board is a governing body which represents and manages the company in its daily activity in accordance with the law and the Articles of Association. The Management Board has to act in the best economic interests of the company. According to the Articles of Association, Harju Elekter's Management Board may have 1-5 members who are elected by the Supervisory Board for a period of three years. The Supervisory Board appoint also the chairman and the members as well as remove a member of the Management Board. Every member of the Management Board may represent the company in all legal acts.

In connection with the expiration of the authorisation deadline of the Management Board of AS Harju Elekter, the Supervisory Board

assigned a one-member Management Board for the next three-year period, at its meeting on 4 May 2011, and appointed Andres Allikmäe, the former Chairman of the Management Board, as its Chairman. At the same meeting, the Supervisory Board also removed Lembit Libe and Karin Padjus from their positions as Members of the Management Board. The competence and authority of the Management Board are listed in the Articles of Association and there are no specialities nor agreements concluded which state otherwise.

The everyday business activities of the Group are managed by the Managing Director/CEO. Outside of Estonia compliance with good corporate governance is ensured by the local managements of the companies.

At 31 December 2011, the members of the Management Board owned in accordance with their direct and indirect ownerships totally 1.11% of Harju Elekter shares (note 23).

More specific information about the education and career of the members of the management and supervisory boards, as well as their membership in the management bodies of companies and their shareholdings, have been published on the home page of the company at www.harjuelekter.ee.

Additional management bodies and special committees

Bearing in mind that the top management of the company is relatively small in number the need for forming special committees or any other additional management bodies has not yet occurred. The necessary procedures are regulated by rules. For better risk management of the Group an internal auditor has been established which regularly reports to the management of the Group. In 2010 the Supervisory Board of AS Harju Elekter following the relevant requirement provided for by the Authorised Public Accountants Act formed

the Audit Committee of the company. The Audit Committee has the following tasks: observe and analyse the processing of financial information; the efficiency of risk management and internal audit; the process of audit control of annual accounts and consolidated accounts; the independence of the audit company and the auditor who represents the firm of auditors on the basis of law; as well as to submit proposals and recommendations to the Supervisory Board in issues provided by law. The members of the Supervisory Board of Harju Elekter - Madis Talgre and Andres Toome - were appointed as members of the Committee.

Information management

As a publicly traded company AS Harju Elekter follows the principles of openness and equal treatment of investors. The information requested by the rules and regulations of the stock exchange is published regularly on the due dates. Harju Elekter therefore follows the principle of not publishing estimates but communicates and comments only information concerning events which have actually happened.

In order to keep investors and the public informed Harju Elekter administers a home page which includes all stock exchange notices, business reports and an overview of the company's background, products and other important issues. All subsidiaries of the Group also have home pages.

Auditors

According to the decision of the general meeting of the shareholders (23.4.2009) the audits of AS Harju Elekter for the years 2009–2011 are carried out by KPMG Baltics OÜ. Audits in subsidiaries outside of Estonia are carried out by Baltijos Auditas UAB in Lithuania and KPMG Oy in Finland.

Information About the Supervisory and Management Boards



ENDEL PALLA (19.06.1941)
Chairman of the Supervisory Board

Education: Tallinn University of Technology (TUT), engineer

Career:

1983 – 1999 Harju Elekter, included
1991 – 1999 AS Harju Elekter CEO/Ch
of the Management Board
1999 Ch of the Supervisory Board
of AS Harju Elekter

Participation in the management bodies of business organisations

AS Harju Elekter Teletehnika, AS Harju Elekter Elektrotehnika – Ch of the Supervisory Board; AS Draka Keila Cables – Deputy of the Chairman of the Supervisory Board; AS Harju KEK, AS Laagri Vara – member of the Supervisory Board; Satmatic Oy – Ch of the Management Board; PKC Group Oyj, Rifas UAB, Estonian Chamber of Commerce and Industry – member of the Management Board

Endel Palla owns 1,026,366 of Harju Elekter shares. He has direct participation 6.11% and indirect participation 0.35%.



AIN KABAL (10.06.1962)
Member of the Supervisory Board

Education: University of Tartu, lawyer

Career:

2004 – 2006 Hansa Law Offices OÜ, partner
2001 – Kabal & Partners OÜ and OÜ Investkonsult manager
2011 – Viru Keemia Group AS, head of legal dept

Participation in the management bodies of business organisations

Investkonsult OÜ – manager Lincona Konsult AS – Ch of the Supervisory Board

Ain Kabal owns 3,660 Harju Elekter shares. He has direct participation in share capital 0.02%. He doesn't have indirect holdings.



LEMBIT KIRSME (1.01.1941)
Member of the Supervisory Board

Education: Tallinn University of Technology (TUT), engineer

Career:

1991 – 2006 Devest AS, manager
1999 – 2009 Harju KEK AS, Ch of the Supervisory Board
2009 – OÜ Kirschmann, Chairman

Lembit Kirsme owns 1,400,000 of Harju Elekter shares. He has direct participation 8.33% and indirect participation 0.72%.



MADIS TALGRE (17.04.1960)
Member of the Supervisory Board

Education: Tallinn University of Technology (TUT), engineer

Career:

1990 – 1999 Põlva KEK, manager
1999 – Harju KEK, manager

Participation in the management bodies of business organisations

Põlva Koit AS, AS Harju KEK subsidiaries – Ch of the Supervisory Board; EKE Invest AS and its subsidiaries, Avraal AS – member of the Supervisory Board;

Laagri Vara AS – member of the Management Board

Madis Talgre owns 21,000 Harju Elekter shares. He has direct participation in share capital 0.13%.

He doesn't have indirect holdings.



ANDRES TOOME (9.01.1972)
Member of the Supervisory Board

Education: Tallinn University of Technology (TUT), economics and business administration

Career:

1992 – 1999 Estonian Bank, Estonian Investment Bank, Optiva Bank and Sampo Bank Estonia, head of investment dept.

1999 – OÜ Tradematic, manager

Participation in the management bodies of business organisations

AS Lynn Group, AS Tallinna Olümpiapurjespordikeskus, Hotel Jurmala Spa Ltd. – member of the Supervisory Board; OÜ Tradematic, OÜ Jaama Kinnisvara, OÜ Norber Grupp, OÜ M50, Beebimaailm Grupp OÜ, Hermes Worldwide OÜ – member of the Management Board.

Andres Toome has direct participation in company's share capital 0.00% and indirect participation 0.06%.



ANDRES ALLIKMÄE (7.02.1957)
Managing Director/CEO

Education: Tallinn University of Technology (TUT), engineer

Career:

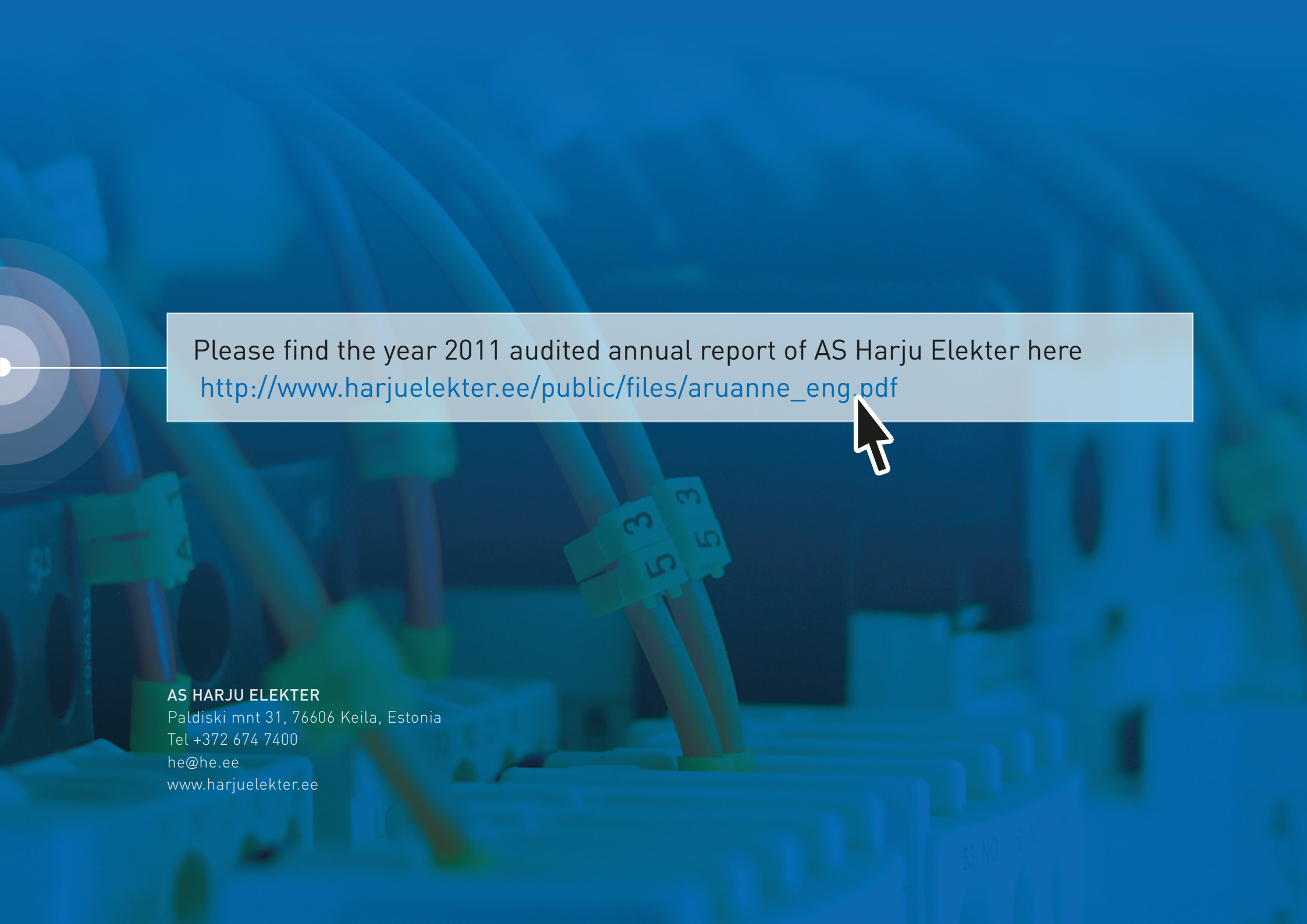
1991 – 1999 Managing director of AS Harju Elekter Cable Harnesses Factory

1999 – Chairman of the Board and Managing director of AS Harju Elekter

Participation in the management bodies of business organisations

AS Harju Elekter Elektrotehnika, AS Harju Elekter Teletehnika, AS Draka Keila Cables, AS Saajos – member of the Supervisory Board; Rifas UAB, Satmatic OY – member of the Management Board

Andres Allikmäe owns 186,800 of Harju Elekter shares. He has direct participation 1.11%. He doesn't have indirect holdings.



Please find the year 2011 audited annual report of AS Harju Elekter here
http://www.harjuelekter.ee/public/files/aruanne_eng.pdf

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